



Management Functions and Managerial Roles



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Introduction

A manager is an individual in a firm who is responsible for the work performance of group members.

In other words, Managers get things done through other people. They make decisions, allocate resources, and direct the activities of others to attain goals. Managers do their work in an organization which is a consciously coordinated social unit, composed of two or more people, that functions on a relatively continuous basis to achieve a common goal or set of goals. By this definition, manufacturing and service firms are organizations, and so are schools, hospitals, churches, military units, retail stores, police departments, and local state, and central government agencies. The people who oversee the activities of others and who are responsible for attaining goals in these organizations are managers.

Types of Managers

Functional or General Manager

Administrators

Entrepreneur or Small Business Owners

Team Leaders

Functional or General Manager

- **Functional managers** supervise the work of employees in specialized activities such as accounting, engineering, information systems, food preparation, marketing and sales.
- He is a manager of specialists.

- **General managers** are those who supervise employees in various different tasks, not necessarily related to each other.
- Example: the job description of a 'Plant General Manager' offers an insight into the work done by general managers. The plant general manager look into works of various departments and their employees, for instance, production department, accounting department, safety control, etc.
- Branch managers and companies' presidents are General Managers.

Administrators

- An administrator is a manager who works in the public (government) or non-profit organization, including education institutions.

Entrepreneurs and Small Business Owners

- An entrepreneur is an individual who founds and operates an innovative business. After an entrepreneur develops the business to a certain level, he or she can't handle it alone anywhere and assumes the role of a general manager who manages people in his or her firm.
- Small business owners are also similar to entrepreneurs as they manage several employees as it grows larger.
- Entrepreneurs are small business owners but the reverse may not be true. An entrepreneur must have an innovative idea to fit in the definition of an entrepreneur.

- Passion for their work is the common principle between the two
- Recent research has indicated three roles or activities that arouse passion in entrepreneurial work:
Opportunity recognition, the inventor role
Venture creation, the founder role
Venture growth, the developer role
- Examples of recent successful entrepreneurial stories of young Indians abound. Flipkart becoming a large company from humble start as a start-up venture by entrepreneurs.

Team leaders

- Referred to as Project Managers, Program Managers, Task Force Leaders, etc., the team leaders are driving forces behind various teams in an organization.
- Team leaders manage small groups of people while acting as facilitators and catalyzers.

Qualities of Manager

In order to succeed in managing, a manager should possess the following qualities:

1. **Education:** A manager must be well-educated. In addition to general education, he must have specific education in business management. Knowledge of the business environment is also important to deal with the problems which the organisation may have to face in the future
2. **Training:** Management skills are not inborn qualities. They are to be acquired through training. Therefore, it is necessary for a good manager to have some sort of training in the branch of management where he is working or going to work.
3. **Intelligence:** A manager should have a somewhat higher level of intelligence than the average human being. He should have the ability to think scientifically and analyse problems accurately.
4. **Leadership:** Every manager is supposed to provide guidance and leadership to a number of subordinates for the achievement of organisational objectives. The manager cannot motivate the subordinates effectively if he has not leadership qualities.
5. **Foresight:** A good manager should have an open mind. He should be receptive to new ideas. He should be able to foresee the problems which might be faced by the business. Only through his foresightedness, he can make good decisions.
6. **Maturity:** A good manager should have broad interests. He should be emotionally mature and have a balanced temperament. He should have high frustration tolerance also.
7. **Technical Knowledge:** A manager should have sufficient knowledge of the techniques of production being used in the enterprise. Adequate technical knowledge so that he may not be fooled by his subordinates.
8. **Human relations attitude:** A good manager should try to develop social understanding. He should treat his subordinates as human beings. He should try to maintain good relations with them. He should understand their problems and offer a helping hand to them.
9. **Self-confidence:** A manager should have self-confidence. He should take decisions after scientific analysis and implement them with full dedication. He should not shirk taking initiative.

Managerial Skills

The job of a manager demands a mixture of many types of skills, whether he belongs to a business organisation, an educational institution, a hospital or a club. Skill refers to the practical ability or expertise in action.

A manager is successful when he is able to make a smooth functioning team of people working under him. He is to reconcile, coordinate and appraise the various viewpoints and talents of people working under him towards the organisational goals. He has also to plan and organise the operations of the enterprise so that the subordinates are able to use the material resources in the best possible manner. For this, he must use the various skills in the appropriate degree.



- From the very beginning of the development of management thought, both management practitioners and researchers have emphasized different skills for managers. Therefore, the list of managerial skills is very long. **Robert Katz** has grouped various managerial skills into three broad categories:

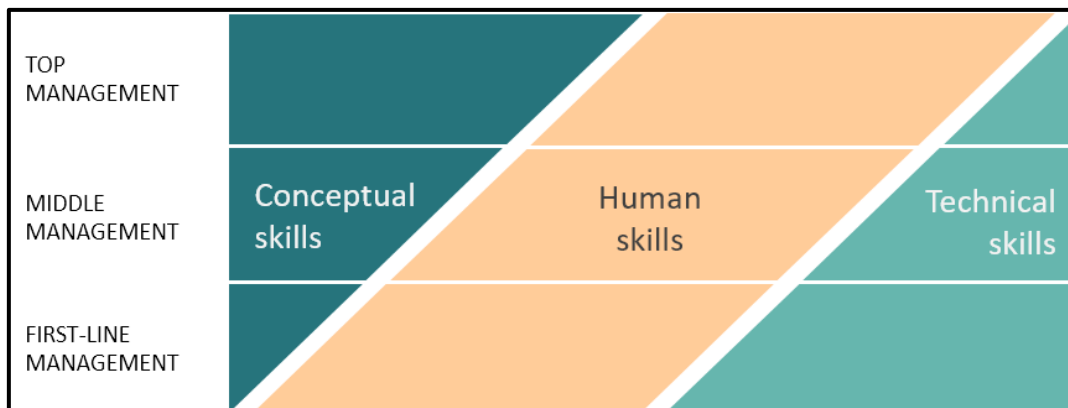


⇒ **Technical skills** deal with job or work that is to be done

⇒ **Human skills** deal with persons

⇒ **Conceptual skills** with ideas

The three types of skills are interrelated and they are required by all managers. But the proportion or relative significance of these skills varies with the level of management.



Technical Skills

Technical skills refer to specialised knowledge and proficiency in handling methods, processes and techniques of specific jobs. These skills are most important in lower-level management and much less important at the upper level.

A production supervisor in a manufacturing plant, for example, must know the processes used and be able to physically perform the tasks he supervises. A word processing supervisor must have specialised knowledge of computer software used in the process. In most cases, technical skills are important skills are important at this level because supervisory managers must train their subordinates in the proper use of work-related tools, machines, and equipment.

Human Skills

Human skills also referred to as human relations skills, are one's ability to work effectively with others on a person-to-person basis and to build up cooperative group relations to accomplish organizational objectives. Human skills are the abilities needed to resolve conflicts, motivate, lead and communicate effectively with others. Since management is a process of getting things done with and through people, no manager can be effective without suitable human skills irrespective of his being technically and conceptually competent. Human skills are required for effective performance.

Conceptual Skills

Conceptual skill is the ability to see the organisation as a whole, to recognise inter-relationships among different functions of the business and external forces and to guide effectively the organisational efforts. Conceptual skills are used for abstract thinking, and for the concept development involved in planning and strategy formulation.

Conceptual skills involve the ability to understand how the parts of an organisation depend on each other. A manager needs conceptual skills to recognize the interrelationships of various situational factors and, therefore, make decisions that will be in the best interests of the organisation.

- There are various levels of management and the management at various levels performs all the functions of management thought in varying degrees. Thus, the level of skills required at different managerial levels will be different whereas technical skills are very essential for lower-level management. Technical

skills can be learnt easily, but other skills cannot be learnt unless an individual has the potential and capacity and an inner urge to learn them.

- Conceptual skills are important for top management which is responsible for formulating long-range plans and policies for the whole business. Human skills are important at all levels of management. This should be obvious as management is the process of getting things done through and with people. At every level, managers interact and work with other human beings. But technical skills are most important for the first line management which has to oversee the use of equipment, tools, processes and procedures. The relative importance of technical skills decreases as one moves up to higher levels of management.

Managerial Roles

A role consists of the behaviour patterns expected of a manager within an organisation or a unit. **Henry Mintzberg** conducted a comprehensive study of the nature of managerial roles in 1973. A summary of Mintzberg's findings gives us a complete picture of what a manager actually does. Based on his study of the activities of five practising chief executives, Mintzberg generalized his description of the nature of managerial work in actual practice.

He identified ten basic roles performed by managers and classified them under three heads:

- I. **Interpersonal**
- II. **Informational**
- III. **Decisional**

I. Interpersonal Roles

- a) A manager is a symbol or a *figurehead*. This role is necessary because of the position occupied. It consists of such duties as signing certain documents required by law and officially receiving visitors.
- b) A manager serves as a *leader* that is, he trains, encourages, remunerates, and judges the subordinates.
- c) A manager serves as a *liaison* between outside contacts such as the community, suppliers and others and the organization.

Figurehead	Leader	Liaison
▪ Performs symbolic duties ▪ Bestows honours ▪ Makes speeches ▪ Serves on commitment	▪ Motivates ▪ inspires ▪ sets an example ▪ legitimizes the powers of subordinates	▪ Maintains relationships with other organizations, governments, industry groups, etc.

II. Informational Roles

- a) As *monitors*, managers gather information in order to be well informed
- b) Managers are *disseminators* of information flowing from both external and internal sources
- c) Managers are *spoke-persons* or representatives of the organisation. They speak for subordinates to superiors and represent upper management to subordinates.

Monitor	Disseminators	Spoke-persons
▪ Observers ▪ Collects and review data on the meeting of standards ▪ Notes compliance	▪ Transmits information and judgements about internal and external environments	▪ Speaks for the organization ▪ Lobbies and defends ▪ Engages in public relations

III. Decisional Roles

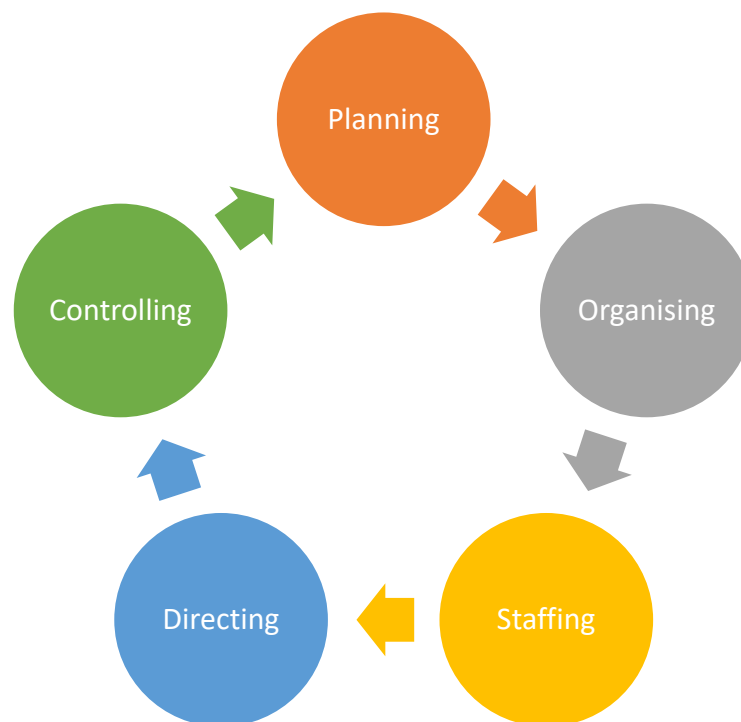
- Managers are *entrepreneurs* who are initiators, innovators, problem discoverers, and designers of improvement projects that direct and control change in the organisation.
- As *disturbance handlers*, managers react to situations that are unexpected, such as mass absenteeism, the resignation of subordinates, or loss of customers.
- A third decisional role is that of *resource allocator*, i.e., who will get what?
- Finally, managers are negotiators. The managers negotiate with customers, suppliers, etc.

Entrepreneur	Disturbance Handler	Resource Allocator	Negotiator
▪ Initiates changes ▪ Authorizes action ▪ Sets goals ▪ Formulates plans	▪ Handles conflicts and complaints ▪ Counters actions of competitors	▪ Approves budgets ▪ Schedules and programmes ▪ Sets priorities	▪ Works out agreements with customers, suppliers and agencies

The above 10 roles form an integrated whole. In addition, managers in any organisation work with each other to establish the organization's long-range goals and to plan how to achieve them. They also work together to provide one another with the accurate information needed to perform tasks. Thus, managers act as channels of communication within the organization.

Management Functions

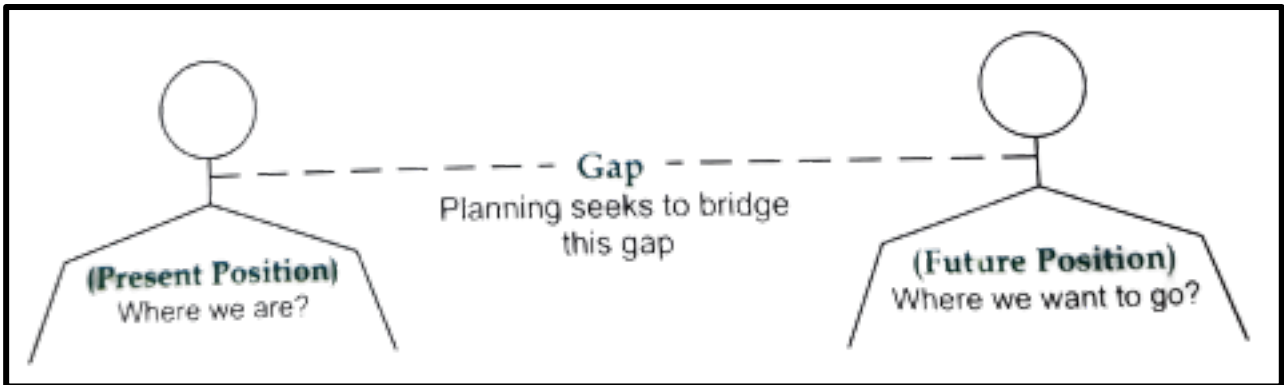
Management of a modern business enterprise is a complex process. It is very difficult to understand the real nature of this process without studying its various facets. In the process of managing, a manager performs various functions for the achievement of pre-determined objectives. Many authorities and scholars on management have discussed the functions of management. A function is a grouping of similar activities. However, what functions are undertaken by managers in organizations, there is a divergence of views because each management thinker, practitioner as well as researcher, has defined a particular management function in his own way. As the result, there is a long list of management functions. We may classify management functions as-



These functions are interdependent and interrelated. There is also overlapping of the functions, as for example, planning and control, organising and staffing, staffing and directing, and control and so on. An overview of the nature and scope of these functions is given below:

Planning

Planning is deciding in advance what to do and how to do it. It is one of the basic managerial functions. Planning means setting objectives and targets and formulating an action plan to achieve them. Planning *seeks to bridge the gap between where we are and where we want to go*.



Planning is the primary function of management. It precedes organising, staffing, directing and controlling. It serves as the basis of all other functions of management. All other functions are performed within the framework of planning since planning determines the objectives of the enterprise and the methods of achieving these objectives. That is, a manager organises, directs and controls to ensure the accomplishment of goals and objectives according to plans.

All managers would like to be successful, increase sales and earn high profits. All managers dream of these and strive to achieve their goals. But to turn these dreams into reality, managers need to work hard in thinking about the future, in making business predictions and achieving targets. Dreams can be turned into reality if a business thinks in advance about what to do and how to do it. This is the **essence of planning**.

Planning is deliberate and conscious activity to formulate the design and orderly sequence of actions through which it is expected to reach the objectives. Thus, we can say that planning is a systematic attempt to decide a particular course of action for the future. It leads to a determination of the objectives of the group activity and the steps necessary to achieve them.

Features of Planning

- 1. Planning focuses on achieving objectives** as specific goals are set out in the plans along with activities undertaken to achieve them. Planning has no meaning unless it contributes to the achievement of pre-determined organisational goals/objectives.
- 2. Planning is the primary function of management.**
It provides the basis for all other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the 'primacy of planning'.
- 3. Planning is futuristic:** Planning involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively and efficiently. Planning is, therefore, regarded as a forward-

looking function based on forecasting. Through forecasting, future events and conditions are anticipated and plans are drawn accordingly.

- For example, on the basis of sales forecasting a business firm prepares its annual plan for production and sales.

4. Planning is pervasive:

Planning is required at all levels of management as well as in all departments of the organisation. It is not an exclusive function of top management. Planning is what managers at all levels do.

- Top management plans for the whole organisation
- Middle management prepares departmental plans
- At the lowest level, supervisors formulate day-to-day operational plans.

5. Planning involves decision-making

as it involves choosing the best alternative from among various alternative courses of action. It involves examination and evaluation of each alternative and choosing the most appropriate one.

6. Planning is a continuous process:

Plans are prepared for a specific time period, e.g., for a month, or a quarter, or a year. At the end of that period, new plans have to be prepared on the basis of new requirements and future conditions. Hence, planning is a continuous process. Once a plan is framed, it is implemented; then it is followed by another plan, and so on.

7. Planning is a mental exercise

as it requires application and sound judgement. It is an intellectual activity of thinking rather than doing work because planning determines the action to be taken.

Steps in Planning Process

The planning process involves certain logical steps, given below:

1. Setting Objectives:

The first and foremost step is setting objectives or goals, which specify what the organisation wants to achieve. For example, increasing profits by 20% could be the objective of a company manufacturing garments.

Objectives must be set for the entire organisation and for all departments, units and employees. They give direction to all.s

2. Developing premises:

Planning is concerned with the future, which is uncertain. Therefore, the manager is required to make certain assumptions about the future, which are considered to be the base material upon which plans are to be drawn. These assumptions are called **planning premises**.

Assumptions are made in the form of forecasts about the demand for the company's product, government policy changes, tax rates, etc.

3. Identify alternative courses of action:

Once objectives are set and assumptions are made, then the next step is to identify all possible alternative courses of action to achieve the objectives. For example, in order to achieve the organisational objective of increasing profits, the alternatives may be:

- Purchasing new high-speed machines, or
- Increasing the selling price
- Using waste material in manufacturing stuffed toys

4. **Evaluating alternative courses of action:** The positive and negative aspects of each alternative are evaluated, i.e., its feasibility and consequences.
5. **Selecting an alternative:** This is the real point of decision-making. The best plan has to be adopted and implemented. The ideal plan would be the most feasible, profitable and with the least negative consequence. For example, using waste material in manufacturing stuffed toys is the best solution for increasing profits.
Sometimes, a combination of plans may be selected instead of one best course.
6. **Formulating derivative plans:** Derivative plans are formulated to support the main plan. For example, advertisement plans for toys.
7. **Implementing the plan:** Implementing the plans means putting the plan into action. This step involves organising labour and purchase of machinery.
8. **Follow-up action:** It means to see whether plans are being implemented and activities are performed according to plans. Monitoring the plans is important to ensure that objectives are achieved.

Planning can now be defined as –“setting objectives for a given time period, formulating various courses of action to achieve them, and then selecting the best possible alternative from among the various courses of action available.”

Importance of Planning

All business firms dream to be successful, increasing their sales and earning profits. However, dreams can be turned into reality only if business managers think in advance about *what to do* and *how to do it*. This is the essence of planning. It is rightly remarked –“**Failing to plan is planning to fail.**” No enterprise can achieve its objectives without systematic planning.

The following points highlight the importance of the planning function of management:

1. **Planning involves directions:** By stating in advance how work is to be done, planning provides direction to action. Planning ensures that objectives/goals are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. Since under planning, objectives/goals are well-defined, employees are aware of what the organization has to do and what they must do to achieve those goals. Departments and individuals in the organisation are able to work in coordination. Without planning, employees would be working in different directions and the organisation would not be able to achieve its desired objectives/goals.
2. **Planning reduces the risks of uncertainty:** Planning enables a manager to look ahead and anticipate changes. By deciding in advance the tasks to be performed planning shows the way to deal with changes and uncertain events. Thus, planning helps to reduce the risks of uncertainty by preparing forecasts.
However, planning only anticipates not eliminates changes/uncertainties. It cannot present problems, but it can predict them and prepare contingency plans to deal with them.
3. **Planning facilitates decision-making:** Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate the positive and

negative aspects of each alternative and select the most feasible and profitable plan, with the least negative consequences.

Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.

- 4. Planning reduces overlapping and wasteful activities:** Planning serves as the basis for coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding.

Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimised or eliminated. It is easier to detect inefficiencies and take corrective action to deal with them.

- 5. Planning promotes innovative ideas:** Planning is thinking in advance about what to do and how to do it. Therefore, the new ideas can take the shape of concrete plans. Thus, planning is closely connected with creativity and innovation.

Planning is the most challenging activity for the management as it guides all future actions leading to the growth and prosperity of the business.

- 6. Planning establishes standards for controlling:** Planning provides the standards against which actual performance is measured. A comparison of actual performance with the standards helps managers to identify the deviations and take corrective action. Thus, planning is the basis/prerequisite for controlling.

Limitations of Planning

Though planning is an important tool of management, it is not a solution to all problems. Planning may fail due to its limitations, as explained below:

- 1. Planning leads to rigidity:** A plan is drawn with specific goals to be achieved within a specific time. Once a well-defined plan is drawn, managers may not be able to change it. They do not have the flexibility to be able to cope with changed circumstances.

However, following a pre-decided plan, when circumstances have changed, may not be in the organisation's interest.

- 2. Planning reduces creativity:** Planning is done by top management. Middle and lower management are neither allowed to deviate from plans nor are they permitted to act on their own. They only carry out orders. Thus, much of the initiative or creativity inherent in them gets lost or reduced.

Planning reduces creativity since people tend to think along the same lines as others. There is nothing new or innovative.

- 3. Planning is a time-consuming process:** Sometimes, plans to be drawn up taking so much time that there is not much time left for their implementation.

- 4. Planning involves huge costs** in terms of time and money. For example, checking the accuracy of facts may involve a lot of time. Costs are incurred on boardroom meetings, discussions with professional experts and preliminary investigations to find out the viability of the plan. Sometimes, the cost incurred may not justify the benefits derived from the plans.

5. Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn up and implemented. Planning is meaningless unless it is translated into action. Managers have a tendency to rely on previously tried and tested successful plans. But it is not always true that a plan which has worked before will work effectively again. While planning, many unknown factors have to be considered. The false security created by planning may actually lead to failure instead of success.

6. Planning may not work in a dynamic environment: The business environment is dynamic as it keeps on changing. The organisation has to constantly adapt itself to changes in a business environment by making changes in its plan. However, it becomes difficult to foresee accurately future trends in the environment if:

- Economic policies are modified (e.g., change in tax rates, bank rates, etc)
- Political conditions in the country are not stable
- A natural calamity such as a flood or earthquake occurs
- Strategies of competitors change (e.g., introducing new models and new designs of the existing products); or
- Fashion and tastes of the consumer change.

⇒ These factors are beyond the control of the business managers. Since planning cannot foresee everything, there may be obstacles to effective planning. Thus, planning might fail in spite of the best efforts of management due to these **external limitations of planning**.

Types of plans

An organisation has to prepare a plan before making any decision related to business operation or undertaking any project.

A plan is a specific action proposed to help the organisation achieve its objectives. It is a document that outlines how goals will be achieved.

Based on the use and length of the planning period, plans can be classified into **single-use plans** and **standing plans**. Single-use and standing plans are part of the operational planning process.

Single use plans	Standing plans
A single-use plan is developed for a one-time event or project.	A standing plan is used for activities that occur regularly over a period of time.
Such a course of action is not likely to be repeated in future i.e., they are for non-recurring situations.	It is designed to ensure that internal operations of an organisation run smoothly
Its duration may be a week or a month and sometimes only one day, e.g., organising an event or a seminar or conference	Such a plan enhances efficiency in routine decision making
It is discarded when the project or event is over	It is usually developed once but used over and over again with necessary modifications from time to time to meet business needs as required

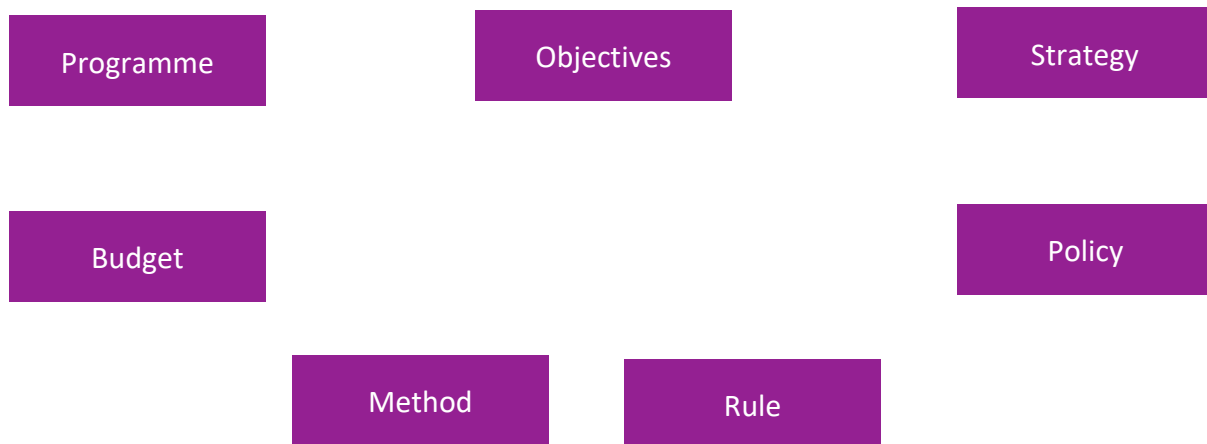
Single-use plans include budgets, programmes, and projects

Example: Budget for Annual General Meeting (AGM) for shareholders

Standing plans include policies, procedures, methods and rules

Example: Selection procedure for a particular post in the economy

Based on what the plans seek to achieve, plans can be classified as:



1. Objectives

Objectives are defined as ends that the management seeks to achieve by its operations. In other words, objectives are the ends towards which the activities of an enterprise are directed.

Objectives are key to effective planning. In fact, planning has no meaning unless it is related to certain well-defined objectives or goals. They provide direction to various activities of the enterprise. They depict a future state of affairs that an organisation strives to realise. Objectives serve as benchmarks of measuring the performance of various people in the organisation and the overall effectiveness and efficiency of the organisation.

- Objectives are usually set by the top management and serve as a guide for overall planning. They focus on broad general issues. Each department or unit then formulates its own objectives keeping in view the overall organisational objectives
- Objectives should be measurable in quantitative terms in the form of a written statement of desired results to be achieved within a given time period. For example, an organisation may have an objective of increasing sales by 10% in the next quarter
- Objectives provide direction for all managerial decisions and actions.

2. Strategy

A strategy is a comprehensive plan for accomplishing an organisation's objectives. It includes three dimensions:

- Determining the long-term objectives of the enterprise
- Adopting a particular course of action, and
- Allocating resources necessary to achieve the objectives

The strategy also refers to future decisions defining the organisation's direction and scope in the long run. A strategy takes into consideration the business environment and competition. The changes in the economic, political, social, legal and technological environment will affect an organisation's strategy.

Major strategic decisions include decisions like whether the organisation will continue to be in the same line of business, or combine new lines of activity with the existing business or seek to acquire a dominant position in the same market. For example, a company's marketing strategy may include a choice of distribution, pricing strategy, choice of advertising media, choice of sales promotion techniques, etc.

3. Policy

The policy is a general guideline which brings uniformity to decision-making for achievement objectives, e.g., Recruitment policy (hiring only university-trained engineers), Sales policies (selling products on a cash basis and dealing with wholesalers only), etc.

Policies are not rigid and specific. They are flexible and broad providing scope for judgement and interpretation.

Policies are general statements or understandings which guide thinking and action.

- While objectives provide the ends that a manager should try to achieve, the policies provide the guidelines which he or she should keep in view while achieving the ends.
- Policies provide a basis for interpreting strategy. They are guides to managerial action and decisions in the implementation of the strategy.
- Policies define the parameters within which a manager may function
- The manager may use his/her discretion to interpret and apply a policy. For example, the decisions taken under a Purchase Policy may include the following:
 - Should a company make or buy its requirements of packages, transport services, the printing of stationery, etc?
 - How should vendors be selected for procuring supplies?
 - How many suppliers should a company make purchases from?

4. Procedure

The procedure consists of sequential steps to carry out activities within the policy framework to attain pre-determined objectives. It details the exact manner in which a work is to be performed.

Examples: Procedure for selection of employees, a procedure for reporting progress in production, a procedure for requisitioning supplies before production, etc.

Procedures are generally meant for insiders to follow.

5. Rule

Rules are rigid and definite plans that specify what is to be done or not done in given situations. A rule provides no scope for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken. A rule generally lays down a penalty for its violation. Rules help to regulate behaviour and to facilitate communication. They facilitate uniformity of action and avoid the need for repeated approval from higher levels of routine matters.

Example: Rule of 'No smoking' in office premises.

A rule is usually the simplest type of plan because there is no compromise or change unless a policy decision is taken.

6. Method

A method is a prescribed way in which a task has to be performed considering the objective.

Example: Training methods for employees – apprenticeship training, induction training, etc.

It deals with a task comprising one step of a procedure and specifies how this step is to be performed, Selection of the right method saves time, money and effort and increases efficiency in the completion of a task.

7. Budget

A budget is a single-use plan since it is drafted for a particular period of time. A budget is a statement of expected results expressed in quantitative terms. For example, Sales Budget, Cash Budget, etc.

Since it is a statement of expected results, it is also used as an instrument of managerial control. It provides a standard by which actual operations can be measured and by which variations could be controlled. A budget forces an enterprise to make in advance a numerical compilation of expected cash flow, expenses and revenues, capital outlays or machine hour utilisation.

8. Programme

A programme is a detailed statement about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. The minutest details are worked out within a broad policy framework.

Examples: Construction of a shopping mall, opening a new department, etc.

Environmental Analysis

Business Environment-Introduction

The term 'Business Environment' means the sum total of all individuals or institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

Changes in Business Environment	Effect on performance of Business Enterprise
Increasing taxes by government	The increased cost of production, hence things become expensive to buy
Increased competition in the market	Reduction in profit margins
Changes in fashion and tastes of consumers	Shift in market demand from existing products to new ones
Technological improvements and innovations	Render existing products obsolete, e.g., LCD TVs become obsolete with introduction of LED TVs
Political uncertainty	Creates fear in the minds of investors to invest in long-term projects

Organisations are open systems. They exchange resources with the external environment and are dependent on it for their survival. They draw inputs such as raw materials, capital, labour, energy, and information from the external environment. The inputs are transformed into products and services and are supplied as outputs to the external environment.

The term 'environment analysis' connotes external forces, factors and institutions that affect a business enterprise. It means the external conditions or forces under which a business firm operates. It includes all factors which are external to and beyond the control of individual business enterprises and their managements. ***Thus, the business environment may be defined as all those conditions and forces external to a business unit under which it operates.*** These forces include customers, creditors, competitors, suppliers, government, etc. Some of these forces may have direct influence over the business firm while others may operate indirectly.

Dimensions/Components/Elements of Environment

1. Economic Environment: The economic environment consists of:

- Change in disposable income of people
- Inflation rate
- Interest rates
- Values of Rupee
- Stock market indices

Examples of Economic Environment affecting the functioning of a business enterprise:

- I. A rise in the disposable income of people due to an increase in the GDP of a country creates an increasing demand for products.
- II. In the case of construction companies and automobile manufacturers, low-interest rates are beneficial because they result in increased spending by consumers for buying homes and cars.
- III. High inflation rates generally result in constraints on business enterprises because they increase the costs of raw materials or machinery and payment of wages and salaries to employees.

2. Social Environment: The social environment of business includes the social forces like:

- Customers and traditions
- Social trends
- Society's expectations and business
- Values

Examples of Social Environment affecting the functioning of a business enterprise:

- I. Social trends present various opportunities and threats to business enterprises. *For example*, the health and fitness trend has created a demand for products like diet soft drinks, gyms, mineral water, and food supplements. However, this trend has harmed businesses in other industries like tobacco and liquor.
- II. Values refer to concepts that a society holds in high esteem. In India, individual freedom, social justice, equality of opportunity, etc. are examples of major values cherished by the society. In business terms, these values translate into the freedom of choice in the market, responsibility of business towards society and non-discriminatory employment practices.

3. Political Environment

It includes political conditions like:



- Stability
- Peace
- The attitude of elected government representatives towards business

Examples of Political Environment affecting the functioning of a business enterprise:

- I. Political stability builds up confidence among business people to invest in long-term projects for the growth of the company. But political instability can shake that confidence.
- II. If the government provides subsidies in the production of cotton garments, it will have a positive impact on cotton textile businesses.

4. Legal Environment: It includes:

- Legislation passed by the Government, e.g., trademark Act, 1999; Essential Commodities Act, 1955; etc.
- Administrative orders issued by government authorities
- Court judgements
- Decisions rendered by various agencies at every level of government – centre, state, or local

The management of every business is required to obey the law of the land. Non-compliance with laws can land the business enterprise into legal problems.

Examples of Legal Environmental affecting the functioning of a business enterprise:

- I. Advertisements for packets of cigarettes must carry the statutory warning – ‘Cigarette smoking is injurious to health’
- II. Advertisements of alcoholic beverages is prohibited on Doordarshan
- III. Advertisements of baby food must necessarily inform the potential buyers that mother’s milk is the best

All these rules and regulations are required to be followed by the advertisers for better business performance.

5. Technological Environment: It includes forces relating to:

- Scientific improvements and innovations provide new ways of producing goods and services
- New methods and techniques for operating a business

Examples of Technological Environment affecting the functioning of a business enterprise:

- I. Recent technological advancements in computers and electronics have modified the ways in which companies advertise their products. For example, it is common now to see CD-ROMs and Internet/World Web (WWW) multimedia pages highlighting the virtues of products.
- II. Airline companies have internet and WWW pages where customers can look for flight times, destinations, fares and book their tickets online.
- III. Innovations in scientific and engineering fields such as lasers, robotics, biotechnology, food preservatives, tele communication, etc. have provided both opportunities and threats for business enterprises, e.g., shifts in demands from vacuum tubes to transistors, from steam locomotives to diesel-electric engines, from fountain pens to ball pens and typewriters to computer-based word processors, etc.

Techniques of Environmental Analysis and Diagnosis

Environmental analysis is never complete without a diagnosis of the results of the analysis. Diagnosis of the environment involves assessment of the opportunities and threats in the external environment. On the basis

of available data, the strategist must decide as to which types of information to rely on and which types to ignore, and sort out the more important from the less important information that is so diverse and voluminous.

Some of the prominent techniques of environmental analysis are as follows:

1. SWOT

SWOT is an acronym for strengths, weaknesses, opportunities and threats. While strengths and weaknesses can be identified by analysing the internal environment (corporate appraisal), opportunities and threats can be identified by analysing the external environment.

Strength: A strength is an inherent capability of the company which it can use to gain a strategic advantage over its competitors. Country-wide distribution network, for example, is a strength of Hindustan Unilever Limited.

Weakness: A weakness is an inherent limitation or constraint of the company which creates a strategic disadvantage for it. Family feud is today a weakness of Reliance Industries.

Opportunity: An opportunity is a favourable condition in the company's external environment which enables it to strengthen its position. Economic liberalisation and globalisation offer an opportunity to companies which want to enter the banking, insurance, and telecommunication sectors. Growing demand is another opportunity.

Threat: A threat is an unfavourable condition in the company's external environment which causes damage or risk to its position. Competition from multinational corporations is a threat to Indian firms.

SWOT analysis is helpful in the formulation of an effective strategy that can capitalise on the opportunities and neutralise the threats faced by an organisation. SWOT analysis helps an enterprise in matching its strengths and weaknesses (what it can do) with opportunities and threats (what is allowed to do) operating in the environment. An effective strategy is one that capitalises on the opportunities through the use of strengths and neutralises the threats by minimising the impact of weaknesses.

2. ETOP

Environmental threat and opportunity profile (ETOP) is a very popular technique of environmental scanning used by business firms. It involves the identification of threats and opportunities in the environment for the purpose of using such information in strategy formulation.

3. Forecasting of trends

Forecasting is a systematic attempt to probe future with the help of known facts. It is a research procedure to discover those economic, social, political, technological and other forces that are going to influence the functioning of the business enterprise. Thus, forecasting is the process of predicting future systematically. The result of this process is based on past experience and present assumptions about the future.

4. Spying

This method is useful in knowing about the actual or potential competition. The management of a firm can engage a professional spy for gathering trade secrets of the competitors. Even an employee of the competitor, his supplier or customer can also be engaged to get regular information about the competitor's activities.

Organising

‘Organising’ function of management implies a process which coordinates human efforts, assembles resources (money, materials, machines and equipment) and integrates both into a unified whole to be utilised for achieving organisational objectives. Thus, organising is a means for translating plans into action. It decides **who will do a particular task, where it will be done and when it will be done.**

The organising function leads to the creation of an organisational structure which includes the designing of roles to be filled by suitably skilled people and defining the inter-relationship between these roles.

Organising is the process of defining and grouping the activities of the enterprise and establishing authority relationships among them.

Organising Process

1. Identification and Division of work

The first step in the process of organising involves identifying and dividing the total work to be done into small and manageable activities (called jobs) so that duplication of efforts and resources can be avoided and the burden of work can be shared among the employees.

2. Departmentalisation/Departmentation

The second step in organising is grouping similar/related jobs into larger units called departments or divisions. This grouping process is called ‘Departmentalisation/Departmentation’. It facilitates specialisation, coordination and control.

Departments/divisions can be created on the basis of:

- a) Functions (Purchasing, Marketing, Finance, etc.) or
- b) Products (Cosmetics, Garments, Footwear, etc)
- c) Territory (North, East, West, etc.)

3. Assignment of Duties of Job Positions

Once departments have been formed, it is necessary to allocate work/jobs to the members of each department according to their skills and competencies. In other words, the work must be assigned to those who are best fitted to perform it. It is essential for effective performance. The performance of assigned duties should be carried down to the lowest levels. A clear definition of the responsibility of each individual or position is necessary to avoid duplication of work and overlapping efforts.

4. Establishing Reporting Relationships

Merely allocating work is not enough. Authority-responsibility is established so that each individual may know from whom he/she takes orders and to whom he/she is accountable.

Importance of Organising

The following points highlight the crucial role that organising plays in any business enterprise:

1. **Benefits of Specialisation:** It leads to specialisation by a systematic allocation of jobs resulting in reduced workload and enhanced productivity.

2. **Clarity of working relationships:** It leads to clarity in working relationships by specifying who is reporting to whom.
3. **Effective administration:** It helps in effective administration by providing a clear description of jobs and working relationships.
4. **Optimum utilisation of resources:** It leads to optimum utilisation of resources by avoiding duplication of work and minimising wastage of resources and efforts.
5. **Expansion and growth:** It helps in expansion and growth by allowing a business enterprise to add more job positions, departments and product lines.
6. **Adaptation to change:** It helps in adaptation to change by allowing the organisation structure to be suitably modified according to the changes in a business environment.
7. **Development of personnel:** It helps in the development of personnel by the delegation of work to subordinates. Effective delegation allows the managers to reduce their workload by assigning routine jobs to their subordinates. It also provides an opportunity for the subordinates to utilise their talent.

Concept of Delegation

A manager, no matter, how capable he/she is, cannot manage to do every task on his/her own. The overload of work makes it impractical for him/her to handle it all by himself/herself. So, in order to ensure that work is accomplished and the organisational goals are achieved, he/she must delegate authority.

Delegation refers to a transfer of authority from a superior to a subordinate

Delegation is a prerequisite to the efficient functioning of an organisation because it enables a manager to use his time on high-priority activities. It also satisfies the subordinates' need for recognition and provides them with opportunities to develop and exercise initiative.

Delegation envisages the existence of authority in the hands of the delegator. A manager cannot delegate authority that he himself does not possess.

Delegation takes place "when one person gives another person the right to perform work on his behalf and in his name and the second person accepts a corresponding duty or obligation to do what is required of him". Delegation takes place when authority is vested in a subordinate by a superior.

Principles of Delegation

1. Authority granted must be equal to the responsibility assigned

If authority is more than responsibility, it may lead to misuse of authority, and if responsibility assigned is more than authority, it may make a person ineffective.

- For example, suppose a divisional manager enhances the target production from 500 units to 600 units per month but the authority to draw materials was not given to him/her. So, the production manager can't be blamed if he/she could not achieve the revised production target.

2. **Delegation does not mean abdication.** The manager still is accountable for the performance of the assigned tasks. He/she cannot escape from the responsibility for any default or mistake on the part of his/her subordinates. This is known as the ***principle of absoluteness of accountability***.

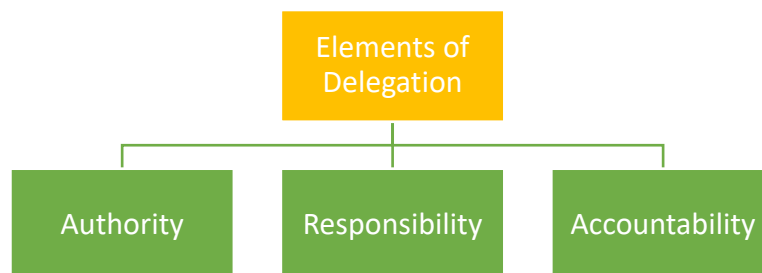
- For example, suppose the directors of a company manufacturing computers have asked their marketing manager to achieve a target sale of 100 computers per day. The marketing manager has delegated the task to his/her deputy sales managers working under him/her. The deputy sales managers could not achieve the target. In this case, the marketing manager is responsible/accountable to the directors for the failure of the deputy sales managers to achieve the sales targets. The process of delegation does not relieve the marketing manager of his/her own responsibility.

3. **The authority granted to a subordinate can be taken back and re-delegated to another person.**

Elements of Delegation

“Delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance.”

This definition brings to light three essential elements of delegation, namely authority, responsibility and accountability.



1. **Authority:** It refers to the right of an individual to command his subordinates and to take action within the scope of his/her position.

- It arises from the established scalar chain which links the various jobs positions and levels of an organisation
- It flows from top to bottom of the scalar chain

2. **Responsibility:** It refers to the obligation of a subordinate to properly perform the assigned duty.

- It arises from a superior-subordinate relationship because the subordinate is bound to perform the duty assigned by his/her superiors
- It flows upwards

3. **Accountability:** It refers to the answerability for the final outcome of the assigned task.

- It cannot be delegated
- It flows upwards

Kinds of Authority

1. **Rational Legal Authority:** Legal authority is derived by a position holder from rules, regulations, policies and norms laid down for the systematic functioning of an organization. It is officially provided by the organization to a position holder and resets with the position and not the person. Whoever occupies that position gains authority over his subordinates. For example, the position of Chief Minister of a state provides authority, any person occupying that position is legally provided over the years.
2. **Traditional Authority:** Authority that resets with a person due to a position that is traditionally recognized is called traditional authority. For example, the authority given to a royal family in a state is traditional authority.
3. **Charismatic Authority:** This kind of authority is generated due to charisma or exceptional power resting within a person. For example, Mahatma Gandhi Ji did not have any formal authority over Indian followers. His charisma made him the leader of a national movement.

Sources of Authority

Management scholars are divided on whether authority originates at the top and flows down in traditional fashion or whether it originates at the bottom as a kind of consent of the subordinates. We can classify the views of management writers under three headings, namely, formal authority theory, acceptance theory and competence theory. These viewpoints are discussed below:

1. **The Formal Authority Theory:** According to this theory, an authority originates at the top in the formal structure of an organisation and it flows downward to subordinates through the process of delegation. The ultimate authority in a company rests with shareholders by virtue of their investment in the company. The shareholders drive their ability due to the institution of private property. They delegate their authority due to the institution of private property. They delegate their authority to the Board of Directors which in turn delegates it to the chief executive and so on. Managers at each level of the organisation derive their authority from managers at the higher level. Formal authority is thus the authority that a manager possesses by virtue of his position in the organisation. It is the authority of position. It is hierarchical in nature as it is delegated from one level to another. Formal authority always flows from top to bottom and may, therefore, be called 'top-down authority'. The authority conferred by law is also known as formal authority.
2. **Acceptance Authority Theory:** According to this theory, authority is the power which is accepted by others. The formal authority has no significance unless it is accepted by the subordinates. The degree of effective authority possessed by a manager is measured by the willingness of the subordinates who accept it. "An individual will accept an exercise of authority if the advantages accruing to him from accepting plus the disadvantages accruing to him from not accepting exceed the advantages from accepting; and conversely, he will not accept an exercise of authority if the latter factors exceed the former". Thus, the acceptability of an order will depend upon the relative consequence, both positive and negative. Many orders may be fully acceptable, many fully unacceptable and others only partially acceptable. Barnard maintains that a subordinate will accept an order if he understands it well if he believes it is consistent with the organisational objectives and compatible with his own interests.

According to acceptance theory, authority flows upward from subordinates to superiors. A manager gets authority if subordinates obey his command. Acceptance authority may, therefore, be called 'bottom-up authority'. The value of the acceptance theory lies in its recognition of the individual's decision on



whether to accept the formal authority. This theory emphasises interpersonal relationships and the sanctions that a manager can use. It permits attention to the legal and social basis of authority. But it overlooks the influence of social institutions like trade unions. "Acceptance theory interprets authority as leadership (the ability to persuade others to work well to accomplish group goals). Authority is more comprehensive than this. The theory does not explain a manager's authority to deal with unions, raise capital, buy products, etc. Thus, a conflict exists between formal and acceptance authority.

- 3. The Competence theory:** According to this theory authority is generated by the personal qualities or technical competence of the manager. People accept the order of a person because he has specialised knowledge and skills. His opinions carry weight and people seek his advice irrespective of his position in the managerial hierarchy. For instance, staff specialists possess authority due to their expert knowledge. A person may have no formal authority but people willingly submit to his command due to his competence and charismatic personality. Personal authority is thus the authority of knowledge.

Thus, the authority of a manager flows from different sources. Formal authority is conferred by the organisation, personal authority by subordinates' acceptance (popularity) and technical authority is implicit in special knowledge or skills. To be effective, a manager needs acceptance authority and competence authority. Nevertheless, formal authority is the foundation of the managerial job.

Power

The term 'power' may be defined as the capacity to exert influence over others. If a person has power, it means that he is able to influence the behaviour of other individuals. The essence of power is control over the behaviour of others. "In one's role as a supervisor, a manager's power may be seen as the ability to cause subordinates to do what the manager wishes him to do. A manager's power may be measured in terms of the ability to (1) give rewards (2) promise rewards (3) threaten to withdraw current rewards (4) withdraw current rewards (5) threaten punishment and (6) punish."

The term 'authority' on the other hand, denotes the right of a manager to decide and command. For example, a manager has a right to assign tasks to subordinates and expect and require satisfactory performance from them. But the manager may not have the means (or power) available to enforce this right. Thus, whether a manager can enforce his rights is a question of power. Similarly, there may be a situation where a person has the power to do something, but lacks the authority to do it. Such situations may cause conflicts in organisations. Therefore, for organisational stability, power and the right to do things should be equated. "When power and authority are roughly equated, we have a condition we may call legitimate power"

Sources of Power

- 1. Coercive Power:** The coercive power base depends on fear of the negative results from failing to comply. In other words, it is based on the influencer's ability to punish the influencee for not carrying out orders or for not meeting requirements. Fear of punishment may make the subordinates execute the instructions of the boss.
- 2. Reward Power:** The opposite of coercive power is reward powers with which people comply because it produces benefits; someone who can distribute rewards others view as valuable will have power over

them. These rewards can be either financial – such as controlling pay rates, raises and bonuses, - or nonfinancial, including recognition, promotions, interesting work assignments, friendly colleagues, and preferred work shifts or sales territories.

3. **Legitimate Power:** It is based on the formal rights one receives as a result of holding a position in an organisation. It may also be called 'positional power' because of the authority inherent in the position. It exists when an influencee acknowledges that the influencer is lawfully entitled to exert influence. It is also implied that the influencee has an obligation to accept this power.
4. **Expert Power:** Expert power is the influence wielded as a result of expertise, special skill, or knowledge. As jobs become more specialized, we become increasingly dependent on experts to achieve goals. It is generally acknowledged that physicians have expertise and hence expert power. Most of us follow our doctor's advice. Computer specialists, tax accountants, economists, industrial psychologists, and other specialists wield power as a result of their experience.
5. **Referent Power:** It is based on identification with a person who has desirable resources or personal traits. Referent power develops out of admiration of another and a desire to model their attitudes and behaviour after that person. For example, a manager will have referent power over the subordinates if they are motivated to emulate his work habits.

These are potential sources of power only. Possession of some or all of them does not guarantee that ability to influence particular individuals in specific ways. The role of the influencee in accepting or rejecting the attempted influence is very important. It may also be noted that, normally, each of five power bases is potentially inherent in a manager's position.

Some generalisations about the use of power and the effectiveness of various bases of power are given below:

1. There is no evidence of power unless it is exercised. The purpose of power is to influence others for getting certain things done.
2. Power is stronger than influence. It is the ability to bring about potential acts by commanding or exerting influence. But influence is a psychological force. It exerts influence, one person tries to influence the behaviour of others.
3. The effect of power is reduced when it is exercised outside its perceived limits.
4. The stronger the power base the greater is the power. The strongest power base is legitimacy (or formal authority) and the weakest is coercion.
5. A person difficult to be replaced has more powers than others. If a low-ranking employee has more knowledge than his superiors, he is likely to have more personal power.

Elements of Delegation: A Comparison

Basis	Authority	Responsibility	Accountability
Meaning	Right to command	Obligation to perform an assigned task.	Answerability for outcome of the assigned task.
Origin	Arises from formal position	Arises from delegated authority	Arises from responsibility
Flow	Flows downwards from superior to subordinate	Flows upwards from subordinate to superior	Flows upwards from subordinate to superior
Delegation	Can be delegated	Cannot be entirely delegated	Cannot be delegated at all

Importance of Delegation

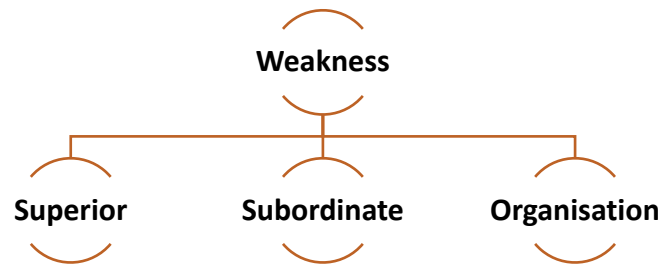
The importance of delegation of authority may be outlined as follows:

- 1. Effective management:** By passing on the routine work to the subordinates, the manager is able to concentrate on policy matters and decision-making. This would increase his/her effectiveness.
- 2. The motivation of employees:** Delegation implies the grant of authority to the subordinates. So, they have a sense of recognition. They are motivated to work for higher performance.
- 3. Employee development:** As a result of delegation, employees get opportunities to utilise their talent. It allows them to develop the skills necessary to perform complex tasks. It makes them better leaders and decision-makers. Thus, delegation develops and trains staff for more senior positions.
- 4. Facilitation of growth:** Delegation helps in the expansion of an organisation by providing trained and efficient people – a ready workforce to take up leading positions in new ventures.
- 5. Better coordination:** The elements of delegation, namely authority, responsibility and accountability help to define power, duties and answerability related to the various positions in an organisation. The clarity in reporting relationships helps in developing and maintaining effective coordination amongst various departments, levels and functions of management.
- 6. Creation of management hierarchy:** Delegation of authority establishes superior-subordinate relationships, which creates the hierarchy of management. The extent of delegated authority decides the power that each job position enjoys in the organisation.

Weakness of Delegation in Practice

Though delegation appears to be a simple process, many difficulties or hurdles come in the way if effective delegation. These difficulties may be caused by either one or more of the following:





Difficulties on the part of Superior

Management failure in delegation arises because of the absence of one or more of the following factors:

- I. **Lack of Receptiveness:** The manager must be willing to give other people's ideas a chance. But when a manager feels that she can do the job better herself, she will be reluctant to delegate authority.
- II. **Lack of ability to direct:** A manager who cannot guide and supervise her subordinates effectively will not like to delegate authority. Such a manager is not fully familiar with the art of delegation and does not know how to monitor and control the activities of subordinates.
- III. **Willingness to let go:** The manager who wishes to delegate effectively must be willing to release the right to make decisions to the subordinates. The desire for dominance over the work of subordinates at each step hampers the process of delegation. Moreover, a manager may be afraid that if he lets the subordinate makes decisions, he may outshine him.
- IV. **Lack of trust in subordinates:** Delegation implies a trustful attitude between the superior and the subordinate. Lack of confidence in the capacity, ability and dependability of the subordinates obstructs the superior to delegate authority. Since a manager lacks confidence in the subordinates, he will not delegate authority to give them any chance to make mistakes and learn how to take correct decisions.
- V. **Ineffective Control:** A manager may hesitate authority because he does not have control to ensure that the authority is being properly used. A superior requires continuous feedback on subordinates' activities and signals which can reveal misuse of authority. There must be a control system by which subordinates' actions can be monitored. Sometimes, the manager may be unfamiliar with the art of delegation.

Difficulties on the part of Subordinates

Delegation of authority may fail because the subordinates want to avoid shouldering responsibilities even though there is no fault on the part of the superior. The subordinates may be reluctant to accept authority because on the following reasons:

- I. Lack of self-confidence
- II. Desire to play safe by depending on the boss for all decisions
- III. Fear of committing mistakes and being criticised by the boss
- IV. Lack of incentives
- V. Overburden with duties
- VI. Inadequacy of authority, information and working facilities for performing the duties

Difficulties on the part of the Organisation

The faults contributing to the weakness of delegation in practice may also lie with the organisation. They may include the following:

- I. Defective organisation structure and non-clarity of authority responsibility relationship
- II. Inadequate planning
- III. Splintered authority
- IV. Infringement of the principle of unity of command
- V. Lack of effective control mechanism

Decentralisation

Decentralisation refers to the systematic delegation of authority through all the levels of management and in all departments except that which can be exercised only at central points. Decision-making authority is pushed down the chain of command.

Decentralisation is an extension of delegation to the lowest level of management in the organisation. It amounts to pushing down authority to all managerial levels.

Example: Consider an organisation where all leave applications are processed by the General Manager. He feels overburdened and transfers this authority of leave processing to the Production Manager. This is an example of the Delegation of Authority.

If the Production Manager also feels overburdened and requests the General Manager to give him some relief, he may disperse this authority to various heads throughout the organisation and instruct them to process the leave applications of their respective departmental subordinates. This is an example of delegation of authority that may be extended to decentralised authority.

When we delegate authority, we multiply it by two. When we decentralise authority, we multiply it by many.

Importance of Decentralisation

- 1. Relief to top management:** Decentralisation of authority relieves top executives from operating details or routine work so that they can concentrate on more important functions of policy-making, coordination and control. As a company grows beyond the reach of the chief executive, decentralisation becomes necessary. By delegating authority for operating decisions, top management can extend its lead over a giant enterprise.
- 2. Develops initiative amongst subordinates:** It develops initiative amongst subordinates by promoting self-reliance and confidence in them. This is because when lower managerial levels are given the freedom to make their own decisions, they learn to depend on their own judgement.
- 3. Develop managerially talent for the future:** It develops a managerial talent for the future by creating a reservoir of qualified manpower to fill up challenging positions in future. Decentralisation gives them a chance to prove their abilities.

4. **Facilitates growth:** It facilitates growth by fostering competition amongst the departments leading to an increase in productivity. Consequently, the organisation is able to generate more profits which can be used for growth and expansion purposes.
5. **Quick decision-making:** It permits prompt and more accurate decisions because decisions are made by those who are fully aware of the realities of the situation. Decisions can be made near the point of action without consulting higher levels and without waiting for the approval of top executives.
6. **Better control:** It leads to better control by evaluating performance at each level of management. The departments/decisions can be individually held accountable for their results. Feedback from all levels helps to analyse deviations and improve operations.

Delegation vs Decentralization

Basis	Delegation	Decentralisation
Nature/ Essentiality	A delegation is a compulsory act because no individual can perform all tasks on his own	Decentralisation is an optional policy decision. It is done at the discretion of the top management
Significance/ Purpose	To reduce the burden of the manager	To increase the role of the subordinate in the organisation by giving them more autonomy
Scope/Parties involved	It has narrow scope as it is limited to superior and his/her immediate subordinate	It has wide scope as it implies an extension of delegation to the lowest level of management
Freedom of action	More control by superiors; hence less freedom to take own decisions	less control over executives; hence greater freedom action of freedom
Status	It is a process followed to share tasks	It is the result of the policy decision of the top management
Withdrawal of authority	Authority delegated to a subordinate can be taken back and redelegated to another person	It is a decentralised organisation, decision-making authority is pushed down the chain of command. There cannot be a withdrawal of authority
Level of authority	The maximum authority is retained at the top management	The authority is systematically divided at every level of management

Staffing

‘Staffing’ function of management simply means **‘putting people to jobs’** or **‘finding the right people for the right job’**. It includes estimating manpower requirements, recruitment, selection, placement and orientation, training and development, performance appraisal, promotion and career planning and compensation of employees. Thus, the staffing function of management is concerned with obtaining, utilising and maintaining a satisfactory and satisfied workforce.

It is the managerial function of filling and keeping filled positions in the organisation structure.

In a new enterprise, the staffing function follows the planning and organising functions. After deciding what is to be done, how is it to be done and after the creation of the organisation structure, the management is in a position to know the human resource requirements of the enterprise at different levels. Once the number and types of personnel needed in the organisation is determined, management starts with the activities relating to recruiting, selecting and training people.

In an existing enterprise, staffing is a continuous process because new jobs may be created and some of the existing employees may leave the organisation.

Importance of Staffing

Human resources are the principal assets of any organisation. The foundation of any organisation is talented and hard-working people. An organisation can achieve its objectives only when it has the right kind of people in the right positions. If the right kind of employees are not available, it will lead to wastage of materials, time and effort and energy, resulting in lower productivity and poor quality of products. The enterprise will not be able to sell its products profitably.

The need for staffing function has assumed greater importance these days because of:

- The rapid advancement of technology
- The increasing size of the organisation
- Complicated behaviour of human beings

The following points highlight the importance of staffing to the organisation:

1. **Obtaining competent personnel:** Proper staffing helps in discovering and obtaining competent personnel for various jobs.
2. **Higher performance:** Proper staffing ensures higher performance *by putting the right person on the right job.*
3. **Continuous survival and growth:** Proper staffing ensures continuous survival and growth of the enterprise *through succession planning for managers.*
4. **Optimum utilisation of human resources:** Proper staffing helps to ensure optimum utilisation of human resources. By avoiding over-staffing, it prevents underutilisation of personnel and high labour costs. At the same time, it avoids disruption of work by indicating in advance the shortage of personnel.

5. **Improves job satisfaction and morale of employees:** Proper staffing improves job satisfaction and morale of employees *through objective assessment and fair reward for their contribution.*

Staffing Process

1. Estimating Manpower Requirements

It means understanding how many persons are needed and of what type (i.e., skills required) in the organisation.

Understanding the more manpower requirements necessitates-

- **Workload Analysis:** It would enable an assessment of the number and types of human resources necessary for the performance of various jobs and the accomplishment of organisational objectives.
- **Workforce Analysis:** It estimates the number and type of human resources available. It would reveal whether the organisation is under-staffed, over-staffed or optimally stated. Neither over-staffing nor under-staffing is a desirable situation. A situation of over-staffing somewhere would necessitate employee removal or transfer elsewhere. On the other hand, a situation of understaffing would necessitate the starting of the recruitment process.

2. Recruitment

Recruitment is the process of researching prospective employees and stimulating them to apply for jobs in the organisation.

The main objective of recruitment is to create a pool of prospective job candidates.

The higher the number of people who apply for a job, the higher will be the possibility of getting a suitable candidate.

Various activities involved in the process of recruitment:

- a) Identification of different sources of recruitment, e.g., advertisement, employment exchanges, management consultations, internal promotions, etc.
- b) Assessment of their validity
- c) Choosing the most suitable sources; and
- d) Inviting applications from the prospective candidates for the vacancies

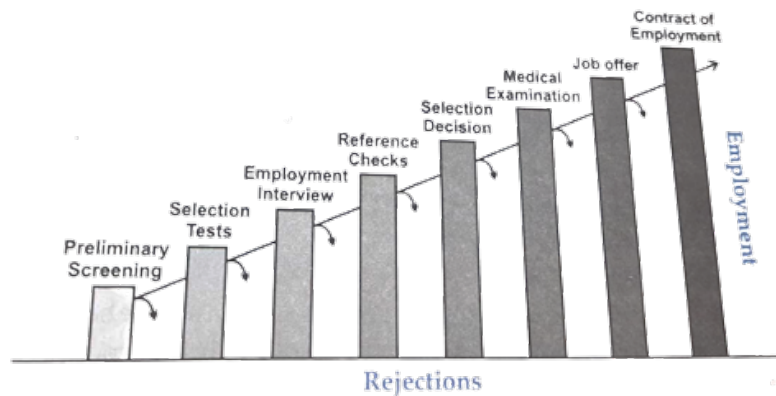
3. Selection

Selection is the process of identifying and choosing the best person out of a number of prospective candidates for the job.

The selection process serves two important purposes:

- I. It ensures that the organisation gets the best among the available
- II. It enhances the self-esteem and prestige of those selected.

A well-organised selection process of personnel involves the following steps:



- a) **Preliminary screening:** Preliminary screening helps the manager to eliminate unqualified or unfit job-seekers based on the information supplied in the application forms.
- b) **Selection tasks:** Selection tasks measure the aptitude, intelligence, personality, etc. of the candidates who have applied for the vacant jobs.

Types of selection tests

- II. **Intelligence test:** It measures the level of intelligence quotient of an individual. It is an indicator of a person's learning ability or the ability to make decisions and judgements.
Example: used for selecting a school teacher
 - III. **Aptitude Test:** It is a measure of an individual's potential for learning new skills. It indicates the person's capacity to develop.
Example: used for selecting a computer engineer or a chartered accountant
 - IV. **Personality Test:** Personality tests provide clues to a person's emotions, reactions, maturity, value system, etc. These tests judge the overall personality.
Example: used for selecting a public dealing officer
 - V. **Trade Test:** These tests measure the existing skills (professional knowledge and proficiency) of the individual.
Example: used for selecting a computer operator.
 - VI. **Interest test:** Interest tests are used to know the pattern of interest or involvement of a person. Example: used for selecting an interior decorator.
- c) **Employment interview:** The interview is a formal, in-depth conversation conducted to evaluate the applicant's suitability for the job. The role of the interviewer is to seek information, which the interviewee provides.
 - d) **Reference and background check:** Many employees require names, addresses and telephone numbers of references (previous employers, known persons, teachers and university professors, etc) for the purpose of verifying information and gaining additional information about the applicant.
 - e) **Selection decision:** The final selection decision has to be made from among the candidates who pass the tests, interviews and reference checks.

- f) **Medical examination:** After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test.
- g) **Job offer:** A job offer is made to the selected candidates through a letter of appointment, which contains the date by which he/she must report on duty.
- h) **Contract of employment:** A contract of employment is prepared regarding terms and conditions of employment, such as job title, responsibilities, pay, allowances, hours of work, leave rules, termination of employment, etc.

4. Placement and Orientation

Placement refers to occupying of the position or post for which he/she has been selected.

Orientation refers to introducing the selected employee to his/her superiors, subordinates and colleagues, and familiarising him/her with the rules and policies of the organisation.

5. Training and Development

Training refers to the process by which the aptitudes, skills and abilities of employees to perform specific jobs are improved. It enables the employee to do the job better.

Development refers to the process by which the employees acquire skills and competencies for handling higher jobs in future. It enables the overall growth of the employee.

6. Performance Appraisal

Performance appraisal means evaluating an employee's current and/or past performance as against certain pre-determined standards. For example, if a sales manager was given a sales target of 1,00,000 pens during the month, his/her performance will be evaluated on this basis at the end of the month. Appraisals are used for a variety of purposes relating to training, promotion and compensation.

7. Promotion and Career Planning

Promotion and career planning for employees have become necessary for all organisations. Managers must encourage employees to grow and realise their full potential. Promotions involve shifting an employee to a higher position carrying higher responsibility, facilities, status and pay.

8. Compensation

Compensation refers to all forms of pay or rewards given to the employees. It includes:

- I. **Direct financial payments** – wages, salary, commission, incentives, bonus, etc.
Direct financial payments are also of two types:
 - a) Time-based plan: wages and salaries are paid either daily, weekly, monthly or annually
 - b) Performance-based plan: wages and salary are paid according to piece work, i.e., number of units produced by him/her
- II. **Indirect payments** – vacations, employer's contributions to social security schemes like provident fund, LIC, etc.
Factors which influence the design of any plan:
 - I. Legal factors (labour laws)
 - II. Trade Union
 - III. Company Policy
 - IV. Equity

Sources of Recruitment



Internal Sources of Recruitment

Internal sources refer to inviting candidates from within the organisation.

The two important internal sources of recruitment are discussed below:

- 1. Transfer:** Transfers involve shifting an employee from one job to another, from one department to another or from one shift to another, without a substantial change in the responsibilities, salary and status of the employee.
Shortage of suitable personnel in the department/branch may be filled through transfer from other departments/branches.
- 2. Promotions:** Promotions involve shifting/placing an employee in a higher position carrying higher responsibility, facilities, status and pay.
It helps to improve the motivation, loyalty and satisfaction levels of employees.

External Sources of Recruitment

External sources of inviting candidates from outside the organisation.

Important external sources of recruitment are discussed below:

- 1. Campus recruitment:** Colleges and Institutes of Management and Technology have become a popular source of recruitment for *technical, professional* and *managerial jobs*. Many big organisations maintain a close link with them to recruit qualified personnel for various jobs.
- 2. Management consultants and placement agencies:** Management consultants help organisations to recruit *technical, professional* and *managerial jobs*. They specialise in middle-level and top-level executive placements. They maintain data on persons with different qualifications and skills.
Placement agencies compile the bio-data of a large number of candidates and recommend suitable names to their clients. They charge a fee for their services.
- 3. Employment agencies:** Employment exchanges run by the government help to match personnel demand and supply by serving as a link between job-seekers and employers. It is suitable for unskilled and skilled operative jobs.
Disadvantage: The records of employment exchanges are often not up-to-date and many of the candidates referred by them may not be found suitable.

- 4. Advertisement (Newspaper, Journals and Television):** Most of the senior positions in industry and commerce are filled by this method. Advertisement in newspapers or trade journals is generally used when a wider choice is required. The practice of telecasting vacant posts over TV (Doordarshan and other channels) is also gaining importance these days.

Advantages:

- I. More information about the organisation and job can be given in the advertisement
- II. The advertisement gives the management a wider range of candidates from which to choose.

Disadvantages: It may bring in a flood of responses, and many times from quite unsuitable candidates.

- 5. Direct Recruitment:** A notice is placed on the noticeboard of the enterprise specifying the details of the jobs available. Job-seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot.

The practice of direct recruitment is followed usually for casual vacancies of unskilled or semi-skilled jobs. Such workers are known as casual workers.

They are paid remuneration on a daily wage basis.

Advantage: This method of recruitment is very inexpensive as it does not involve any cost of advertising the vacancies.

Suitability: It is suitable for filling casual vacancies when there is a rush of work or when some permanent workers are absent.

- 6. Labour contractors:** Labour contractors (who are themselves employees of the organisation) maintain close contact with labourers. On payment of a commission, they can provide the required number of unskilled workers at short notice.

Disadvantage: If the contractor himself/herself decides to leave the organisation, all the workers employed through him/her will follow suit.

- 7. Casual callers:** A company gets applications on and off even without declaring any vacancy. However, as and when the vacancy arises, the company makes use of such applications.

Advantages: It reduces the cost of a recurring workforce in comparison to other sources.

- 8. Recommendations of employees:** Many firms encourage their employees to recommend the names of their relatives and friends for employment. Such applicants are likely to be good employees because their background is sufficiently known.

- 9. Web publishing:** The Internet is becoming a common source of recruitment. There are certain websites specifically designed for the purpose of providing information about job-seekers and job providers, e.g., www.naukri.com, www.jobstreet.com, etc.

Difference between Recruitment and Selection

The distinction between recruitment and selection is as follows:

1. Recruitment is the process of searching for *prospective employees* and stimulating them to apply for jobs in the organisations. On the other hand, selection means the employment of workers or establishing a *contractual relationship* between the employer and the worker.
2. Recruitment is a *positive process* of searching for prospective employees, whereas selection is a *negative process* because it involves the rejection of unsuitable candidates.

3. The purpose of recruitment is to create a large pool of applicants for the jobs in the organisation. But selection aims at eliminating *unsuitable candidates* and ensuring the most competent people for the jobs.
4. Recruitment is a simple process as the candidates are required to fill in the prescribed forms and deposit them with the employer. But selection is a complex and lengthy process under which the candidates have to pass through a number of stages before getting the offer of a job.

Directing

In the management process, directing enters the picture at the implementation stage. It involves getting others to act after all preparations have been completed. To be specific, once objectives have been formulated and plans of action to achieve these objectives have been drawn, it is necessary to execute the plans. The execution of plans is accomplished by directing the people what to do and seeing that they do it to the best of their ability. It is through directing that the managers get the work done through people.

Directing is the key element of the management process. It is a process around which all performance resolves. It consists of all those activities by which a manager causes the subordinates to act and influences the action of the subordinates to ensure that they perform their tasks in a manner that would lead to an efficient implementation of plans and realisation of organisational goals.

It may be noted that planning, organising, and staffing are not enough. The directing function is needed to initiate action. Also, it is required to communicate organisational goals and plans including methods of work to its subordinates at various levels.

Directing motivates the employees to work harder and better. Efficient planning, sound organisation and staffing may serve no purpose unless accompanied by effective direction of activities.

In short, Directing means instructing, supervising, motivating and leading the subordinates to contribute to the best of their capabilities for the achievement of organisational goals.

“Directing is telling people what to do and seeing that they do it to the best of their ability.”

-Ernest Dale

Features/Characteristics of Directing

1. **Directing initiates action:** The other functions of management (planning, organising, staffing and controlling) just prepare a setting for action but directing initiates action by people in the organisation to achieve its goals. Thus, directing is an executive function.
2. **Directing takes place at every level of management:** Every manager from top executive to supervisor performs the function of directing. The directing takes place wherever superior-subordinate relations exist.
3. **Directing is a continuous process:** It takes place throughout the life of the organisation irrespective of people occupying managerial positions.
4. **Directing flows from top to bottom:** Directing is first initiated at the top level and flows to the bottom through the organisational hierarchy. It means that every manager can direct his/her immediate subordinate and take instructions from his/her immediate boss.

Importance of Directing

“Directing is the heart of management”

The importance of directing in the organisation can be understood by the following points:

- 1. Initiates action:** Directing helps to initiate action by people in the organisation towards achieving its goals/objectives.
For example, if a supervisor guides his/her subordinates and clarifies their doubts in performing a task, they will be able to achieve work targets effectively and efficiently.
- 2. Integrates employees' efforts:** Directing integrates employees' efforts in the organisation in such a way that every individual effort contributes to the achievement of organisational goals. Thus, it ensures that the individuals work for organisational goals.
For example, a manager with good leadership abilities is able to convince the employees that individual efforts and team efforts will lead to the achievement of organisational goals.
- 3. Guides employees:** Directing guides employees to fully realise their potential and capabilities by motivating and providing effective leadership. A good leader can always identify the potential of his employees and motivate them to utilise their full potential.
- 4. Facilitates introduction of changes:** Directing facilitates the introduction of changes needed in the organisation by reducing resistance to change and developing cooperation.
Generally, people have a tendency to resist changes in the organisation. For example, if a manager wants to introduce a new system of accounting, the accounting staff may resist this change. But effective directing through motivation, communication and leadership helps to reduce such resistance and develop cooperation in introducing the change in the organisation. If the manager explains the purpose, provides training and motivates with additional rewards, the employees may accept changes and cooperate with the manager.
- 5. Brings stability and balance:** Directing helps to bring stability in the organisation since it fosters cooperation and commitment among the people. It also helps to achieve balance among various groups, activities and departments.

Elements of Directing

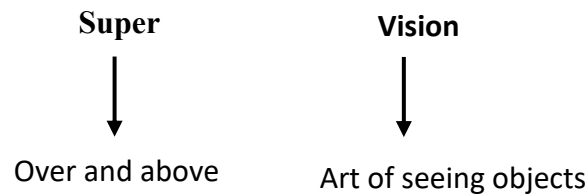
There are four components/elements of directing- supervision, motivation, leadership and communication.



Supervision

The term 'Supervision' can be understood in the following ways:

- **As an element of directing**



Supervision means overseeing what is being done by subordinates and giving instructions to ensure optimum utilisation of resources and achievement of work targets. ***It is the process of guiding the efforts of employees and other resources to accomplish the desired objectives.***

- **As the functions to be performed by the supervisor:**

'Supervision' means a managerial position in the organisation hierarchy at the operational level, i.e., immediately above the workers. The functions and performance of the supervisor are vital to any organisation because he/she is directly related to workers whereas other managers had no direct contact with bottom-level workers. A supervisor performs multiple functions in an organisation. These are explained below:

- I. **Maintains day-to-day contact:** The supervisor maintains day-to-day contact and friendly relations with workers. He acts as a guide, friend and philosopher to the worker.
- II. **Ensures performance of work:** Supervisor ensures the performance of work according to the targets set. He takes responsibility for task achievement and motivates his workers effectively.
- III. **Gives feedback:** The supervisor analyses the work performed and gives feedback to the workers. He suggests ways and means of developing work skills.
- IV. **The link between workers and management:** Supervisor acts as a link between workers and management by conveying management policies and ideas to the workers and workers' problems to the management. This helps to avoid misunderstandings and conflicts between management and workers/employees.
- V. **Provides on-the-job training:** The supervisor builds an efficient team of workers by providing on-the-job training to them.
- VI. **Builds high morale amongst the workers:** Supervisor builds up high morale among workers through good leadership.
- VII. **Helps in maintaining group unity:** The supervisor maintains group unity among workers. He sorts out internal differences and maintains harmony among workers.

Motivation

Motivation means the process of stimulating people to action to accomplish desired goals.

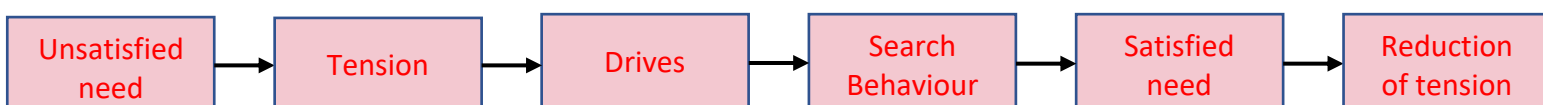
Features of Motivation

- I. **Motivation is an internal feeling:** The urge, desires, aspirations or needs of people, which are internal, influence human behaviour.
- II. **Motivation produces goal-directed behaviour:** For example, If the employee is interested in a promotion, it helps to produce a behaviour to improve performance.
- III. **Motivation can be either positive or negative:** Positive motivation provides positive rewards like an increase in pay, promotion, recognition, etc. Negative motivation uses negative means like punishment, stopping increments, threatening, etc.
- IV. **Motivation is a complex process** because any type of motivation may not have a uniform effect on all the members. Individuals are heterogeneous in their expectations, perceptions and reactions.

While discussing about motivation, we need to understand three terms – motive, motivation and motivators.

- **Motive:** A motive is an inner state that energises, activates or moves and directs behaviour towards goals. Motives arise out of the needs of an individual. Some such motives are hunger, thirst, security, affiliation, recognition, etc.
- **Motivation:** Motivation means the process of making subordinates to act in a desired manner to achieve organisational goals. Motivation depends upon satisfying the needs of people.
- **Motivators:** A motivator is a technique/incentive used to motivate people in an organisation. Managers use diverse motivators like pay, bonus, promotion, recognition, etc. in the organisation to influence people to contribute their best.

Motivation process: motivation process is based on human needs. An unsatisfied need of an individual creates tension/restlessness which stimulates his/her drive. These drives generate a search behaviour to satisfy such needs. If such a need is satisfied, the individual is relieved of tension.



For example, the need for food causes hunger on account of which a man searches for food. After taking a meal, he feels that he has regained energy.

Leadership

Leadership is the process of influencing people so that they strive willingly and enthusiastically towards the achievement of group goals.

It indicates the ability of a manager to maintain good interpersonal relations with his/her subordinates and motivate them to contribute to achieving organisational objectives.

Features of Leadership

- I. Leadership indicates the ability of an individual to influence others.
- II. Leadership tries to bring change in the behaviour of others.
- III. Leadership indicates interpersonal relations between leaders and followers.
- IV. Leadership is exercised to achieve the common goals of the organisation.
- V. Leadership is a continuous process.

Communication

The word 'communication' has been derived from the Latin word 'communis' which means 'common', which consequently implies common understanding. Therefore:

Communication is the process of the exchange of ideas and information among people to create a common understanding.

Communication Process

The elements involved in the communication process are explained below:

- I. Sender: sender means the person who conveys his thoughts or ideas to the receiver. He/she represents the source of communication.
- II. Message: It is the content of ideas, feelings, suggestions, order, etc. intended to be communicated.
- III. Encoding: It is the process of converting the message into a communication symbol such as words, pictures, gestures, etc.
- IV. Media: It is the path through which encoded message is transmitted to the receiver, e.g., face-to-face communication, letter, phone call, the internet, etc.
- V. Decoding: It is the process of converting encoded symbols of the sender.
- VI. Receiver: The person who receives communication from the sender.
- VII. Feedback: It includes all those activities of the receiver indicating that he has received and understood the message of the sender.
- VIII. Noise: noise means obstruction or hindrance to communication, e.g., a poor telephone connection, an inattentive receiver, faulty decoding (attaching the wrong meanings to a message), prejudices obstructing the poor understanding of message, gestures and postures that may distort the message, etc.

Controlling

Like planning, organising, staffing and directing, controlling is also one of the functions of management. All these functions may be performed simultaneously and controlling is definitely not the last function of management. The managerial control involves the measurement of actual performance, comparing it with the planned standards and correcting deviations to ensure the attainment of pre-determined objectives. Thus, controlling is an activity to see whether work is carried out according to schedule or plans laid down and taking corrective action, if necessary.

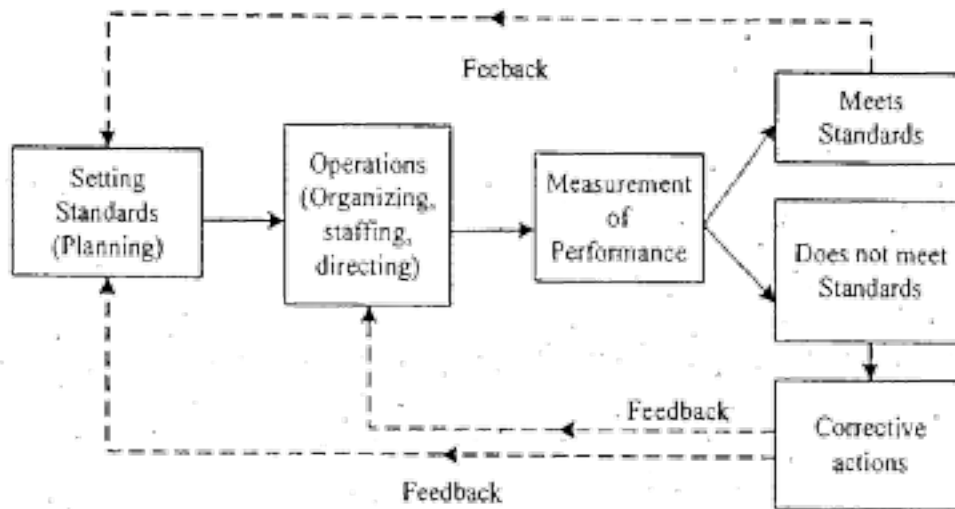
Corrective action need not be taken in the end only, activities can be supervised on a continuous basis. The corrective action may involve making changes in the technical process, in individual behaviour and in the organisation itself. Thus, one of the main features of managerial control is change. Objectives are set and there is a plan of action drawn. Actual performance is measured against these objectives. If performance matches the objectives, things are according to plan. But work rarely goes according to plan and therefore, changes must be made. Deviations are detected and appropriate adjustments are made to correct the deviations as necessary.

*In short, **Controlling is the process of comparing the actual performance with the standards, finding out deviations, if any and taking the necessary corrective action to prevent the recurrence of these deviations in future.***

Nature of Controlling

1. **Controlling is a goal-oriented function** because it involves measuring the progress towards the organisational goals, finding deviations, if any and taking corrective action to ensure the achievement of the goals.
2. **Controlling is a pervasive function** because it is performed:
 - In all organisations, whether business or non-business (e.g., education institution, military, hospital, etc.) and
 - At all levels of management (top, middle and operational)
3. **Controlling is a continuous process** because it involves a constant review of actual performance for taking, corrective action if any. Controlling should not be misunderstood as the last function of management. It brings the management cycle back to planning function because the corrective action in controlling is taken to prevent the recurrence of the deviations in the future. It seeks to improve the future performance on the basis of past experience. In other words, controlling helps in better planning in future.
4. **Control is forward-looking:** Control is linked with the future a past cannot be controlled. A manager can take corrective action only in regard to future operations. Control is usually preventive as the presence of a control system tends to minimise wastages, losses and deviations from standards.

Controlling Process



Controlling is a systematic process involving the following steps:

1. Setting performance standards

The first step in a control process is the setting up of control standards. Standards represent the criteria against which actual performance is measured. Standards serve as benchmarks because they reflect the desired results or acceptable level of performance. Control standards may be of the following kinds:

- a) **Quantitative standards:** These standards are set in physical or monetary items. Such standards are set up in production, sales, finance, and other areas where results can be measured in precise quantitative terms.
- b) **Qualitative standards:** There are certain areas in which it is not possible to set standards in quantitative terms. Goodwill, employee morale, motivation, industrial relations, etc. are such areas. In these areas, standards are laid down in intangible terms.

Examples of quantitative standards:

- a) Reduction of defects from 20 in every 1000 pieces produced to 10 in every 1000 pieces produced by the end of the month.
- b) Target sales volume of Rs.10 lacks per month
- c) Capital expenditure of Rs. 5 crore in new project

Examples of qualitative standards:

- a) Improving customer satisfaction in McDonald's by setting maximum standard waiting time, say, 10 minutes
- b) Improving the performance of employees by setting a standard time to perform a task, say 2 hours
- c) Reducing labour transfer and absenteeism

2. Measurement of performance

After establishing the standards, the second step is to measure the actual performance of various individuals, groups or units. Management should not depend upon the guess that standards are being met. It should measure the performance and compare it with the standards.

The quantitative measurement should be done in cases where standards have been set in numerical terms. This will make evaluation easy and simple.

In all other cases, the performance should be measured in terms of qualitative factors as in the case of the performance of the industrial relations manager. His performance can be measured in terms of the attitude of workers, frequency of strikes and morale of workers. Again attitude and morale of workers are not capable of being measured quantitatively. They have to be measured qualitatively.

3. Comparing performance with standards

Appraisal of performance or comparing of actual performance with predetermined standards is an important step in the control process. Comparison is easy where standards have been set in quantitative terms as in production and marketing.

In other cases, where results are intangible and cannot be measured quantitatively, direct personal observation inspection and reports are a few methods which can be used for evaluation. The evaluation will reveal some deviations from the set standards. The evaluator should point out the defects in the set standards. The evaluator should point out the defects or deficiencies in performance and investigate the causes responsible for these.

4. Analysis of deviation

The deviations from the standards are analysed to identify their causes. While analysing deviations, it is important to determine the acceptable range of deviation and key result areas.

Critical Point Command (CPC): It helps in controlling process by focusing on **key result areas (KRAs)** which are critical to the success of an organization. The key results areas are set as critical points since it is neither economical nor easy to keep a check on each and every activity in an organisation. If anything goes wrong at the critical points, the entire organisation suffers.

For example, in a manufacturing organisation, an increase of 10% in labour cost may be more troublesome than a 20% increase in postal charges.

Management by Exception (MBE): It means that **“an attempt to control everything results in controlling nothing.”** It helps in the controlling process by identifying only significant deviations which costs the permissible limit/acceptable range and bringing them to the notice of the management. Deviations within the acceptable range (i.e., minor deviations)

5. Taking corrective action

- No corrective action is required when the deviations are within the acceptable range/permissible limit
- When the deviations go beyond the acceptable range/permissible limit, especially in the key result areas, immediate managerial attention is required so that the deviations do not occur again
- If the deviation cannot be corrected through managerial action, the standards may have to be revised

Some Examples of Corrective Action

Causes of Deviation	Corrective Action
Defective material	Change the quality specifications for the material used
Defective Machinery	Repair the existing machine or replace the machine if it cannot be prepared
Obsolete Machinery	Undertake technological upgradation of machinery
Defective Process	Modify the existing process
Defective physical conditions of work	Improve the physical conditions of work

Importance of Controlling

Controlling is an indispensable function of management. Without it, the management process is incomplete. A good control system helps an organisation in the following ways:

- 1. Accomplishing organisational goals:** Controlling helps in accomplishing organisational goals by measuring the progress towards the goals, finding out the deviations, if any and taking the necessary corrective action.
Like a traffic signal, controlling guides the organisation and keeps it on the right track so that organisational goals are achieved.
- 2. Judging accuracy of work:** controlling helps in judging the accuracy of standards by keeping a careful check on the changes taking place in the organisation and reviewing and revising the standards in the light of these changes.
- 3. Efficient use of resources:** Controlling helps in making efficient use of resources by ensuring that each activity is performed according to pre-determined standards.
- 4. Ensures order and discipline:** Controlling ensures order and discipline among employees by keeping a close check on their activities.
- 5. Improving employees' motivation and morale:** Controlling ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be judged, thereby, improving employees' motivation and morale.
- 6. Facilitates coordination in action:** The controlling function lays down performance standards for each department and employee which are well-coordinated with one another, thereby helping in achieving better coordination in the organisation.

Limitations of Control

A control system may be faced with the following limitations:

- 1. An enterprise cannot control external factors** such as government policies, technological changes, fashion changes, social changes, etc.

2. Control is an expensive process because sufficient attention has to be paid to observing the performance of the subordinates. This requires an expenditure of a lot of time and effort.
3. A Control system loses its effectiveness when standards of performance cannot be defined in quantitative terms. For instance, it is very difficult to measure human behaviour and employee morale.
4. The effectiveness of control mainly depends on their acceptance by the subordinates. They may resist controls if they feel that these will reduce or curtail their freedom. Control also loses its significance when it is possible to fix the accounting of the subordinates.

Types of Control

Depending on the time at which corrective action is taken, controls are of three kinds-

- I. Post-action or Feedback Control
- II. Concurrent Control
- III. Pre-action or Feedforward Control

Post-action or Feedback Control

Traditionally, control is viewed as historical or post-action control. Under it, results are measured after the performance. Such measurement provides information about how goals have been achieved. This information is known as feedback and on this basis, corrective action is taken. Therefore, a correction occurs after the event.

Feedback control is the process of adjusting future actions on the basis of information about the performance. It is not possible to go back and correct past performance. Accounting records, disciplinary action, performance appraisal, interviews, budgetary control and quality inspection are examples of feedback control. It is also called historical control.

Concurrent Feedback

It is also known as 'real-time or 'steering' control. It includes taking corrective action or making adjustments while a programme is still in operation and before any major change is done.

For instance, the navigator of a ship adjusts its movements continuously or the driver of a car adjusts its steering continuously depending upon the direction of destination, obstacles and other factors. In a factory, a control chart is an example of concurrent control. A safety check is another illustration in this regard. Concurrent control occurs while an activity is taking place.

Pre-action or Feedforward Control

Feedforward control involves the evaluation of inputs and taking corrective measures before a particular sequence of operations is completed.

This control system anticipates the problems that the management is likely to encounter in future and identifies the steps to be taken to overcome them. It attempts to anticipate deviations in advance of their occurrence and allows corrective actions to be taken in advance of the problem. Therefore, it is also known as '**predictive control**', **preventive control** and **pre-control**.

It is a more aggressive approach to control because corrections can be made before the system output is affected. A preventive maintenance programme is an example of feed-forward control. It is employed to prevent a breakdown of plant and machinery.

Another example of feedforward control is the cash budget used to forecast the next year's flows of cash so as to avoid shortages or excess cash. However, feedforward control is costly. Moreover, it may not be possible to do continuous monitoring activities for some activities.

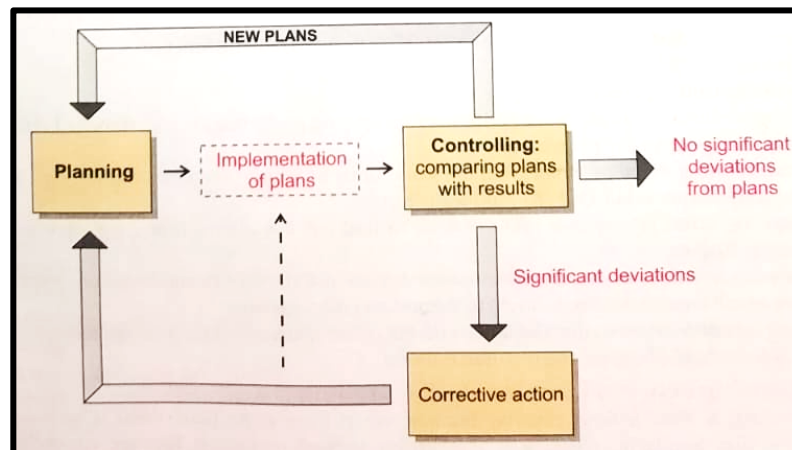
Feedforward control may be used with great advantage if the following guidelines are followed:

1. Thorough planning and analysis must be done
2. Careful discrimination must be applied in selecting input variables
3. Data on input variables must be regularly collected and assessed
4. The feedforward control system must be kept dynamic
5. Corrective action must be taken as suggested by the feedforward control

Relationship between Planning and Controlling

Planning and controlling are mutually interrelated and interdependent activities. They are inseparable twins of management.

1. Controlling takes place on the basis of standards developed by planning. So, when there is no plan, managers have no basis for controlling. Thus, **controlling is blind without planning**.
2. **Planning is meaningless without controlling** as ensures that the events conform to the plans. Once a plan is implemented, controlling is necessary to monitor the progress, measure it, identify and analyse deviations and take corrective actions to ensure that events conform to plans.
3. Planning prescribes an appropriate course of action for achieving objectives whereas controlling evaluates whether decisions have been translated into desired actions.
4. Planning and controlling are both looking back.
 - *Planning is looking back* because new planning is guided by the problems identified in the past
 - *Controlling is looking back* as it compares the actual performance with the standards. This involves scrutinizing the events after they have taken place. It is like a post-mortem of past activities



Major Techniques of Control

Budgetary Control

Budgetary control is the oldest technique of control which is still being used by a business enterprise. According to Walter W. Bigg, 'The term budgetary control is applied to a system of management and accounting control by which all operations and output are forecasts as far ahead as possible and the actual results, when known, are compared with the budget estimates,'

Budgetary control involves the use of budgets to plan, coordinate and control the day-to-day operations of a business in accordance with the overall objectives of the business.

Definition of Budget

A budget is an estimate of future needs, arranged according to an orderly basis covering some or all the activities of an enterprise for a definite period of time. A budget is an important device for managerial control. It provides a standard by which actual operations can be evaluated to know variations from the planned expenditures. A budget has the following characteristics:

- It is prepared in advance and is based on a future plan of actions
- It relates to a future period and is based on objectives to be attained
- It is a statement expressed in monetary and/or physical units prepared for the implementation of policy framed by the top management

Definition of Budgetary Control

Budgetary control is the process of defining desired performance through the preparation of budgets, measuring and comparing actual performance with the corresponding budget estimates and taking corrective action to rectify deviations, if any. Thus, budgetary control involves the following three steps:

- Preparation of budgets
- Continuous comparison of actual results with the planned ones; and
- Revision of plans or budgets in the light of changed circumstances.

Budgetary control is a useful technique of management control which brings efficiency and economy in the working of the business. It facilitates control by establishing budgets in respect of each function and assigning responsibilities for control of actual performance, and thus, prevents buck-passing when the budget figures are not met. It coordinates the working of various a business and makes delegation and decentralisation of authority possible.

Budget – A tool of Planning or control?

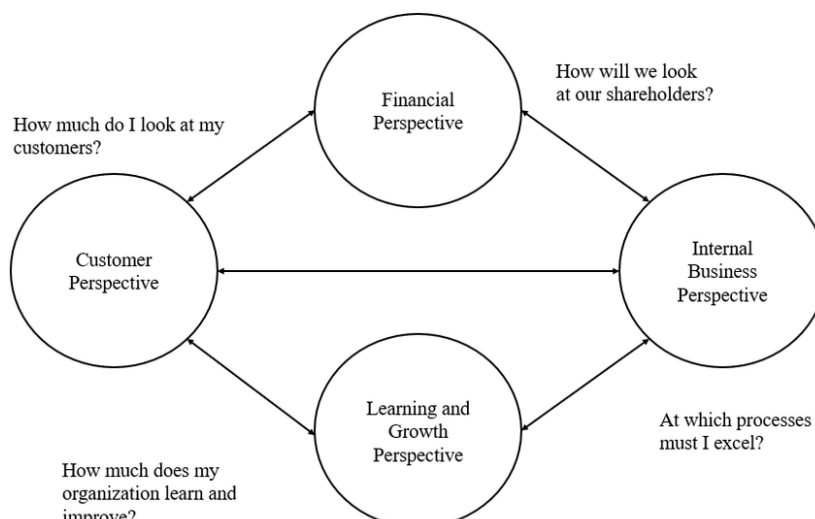
It is wrong to presume that budgets are only a means of control. This is because budgets perform more than one function. First, they represent the objectives, plans and programmes of the enterprise and express them in financial and/or quantitative terms. Second, they help in reporting the progress of actual performance against the pre-determined objective, plans and programmes, and finally, like job descriptions, they define the assignments which have flowed down from the chief executive.

A budget is a kind of business plan for a particular period of time. Formulation of budget forces an enterprise to make in advance a numerical estimation of cash flow, expenses and revenue, capital outlays and machine hour utilisation. It represents the planned expenditure on certain items and expected revenues from various sources. Preparation of a budget requires the same process as it is required to make any other type of plan. It is made well in advance and is based on scientific forecasts. Without sufficient budgeting, it may not be possible to control the expenditures. As a plan, it shows clearly the targets to be achieved in financial and/or physical terms.

A budget is a tool of control. Since it is a statement of expected results, it serves as an effective instrument of control. It provides the standards against which the performance of different departments will be judged. Comparison of actual results with the budgeted figures will help in detecting the sources of deviations and taking corrective steps which is the essence of the control process. This will bring efficiency to the organisation. The economy will be achieved because of the minimisation of wastage of various kinds. Budgets also help in fixing the responsibility of persons for unauthorised and uncalled-for expenditures.

Balanced Scorecard (BSC) (Stakeholder's Approach)

The concept of the Balanced Scorecard was introduced by **Robert Kaplan** and **David Norton** in 1992. A balanced scorecard identifies and links key performance measures (both financial and non-financial) to provide a comprehensive view of the business. It combines both quantitative and qualitative measures so as to meet the expectations of different stakeholders. Under it, performance measures are related to the choice of strategy.



The four perspectives of the Balanced Scorecard are described below:

1. **Financial Perspective:** In this perspective survival, success, growth and prosperity are the main goals. Return on capital and profitability are the key measures. For example, if a company adopts a 'sustain' strategy for a particular business unit, maintaining gross revenue can be its financial measure.

The financial perspective indicates whether a company's strategy and operations add value to shareholders. For organizations that do not have shareholders, the financial perspective indicates how well the strategy and operations contribute to improving the financial health of the organization.

2. **Customer Perspective:** Customer acquisition, retention and satisfaction are the main goals in this perspective. Measures used to judge value added for customers are market share, transaction cost, customer loyalty, satisfaction index, supplier relationships, and key accounts. On-time delivery, defects per shipment, cost and service are the leading indicators of the customer perspective.

Customer satisfaction measures indicate whether the company is meeting the expectations of customers. Customer retention or loyalty indicates how well a company is doing in keeping its customers. Market share indicates a company's proportion of the total business in a particular market. Customer profitability measures the profit generated per customer.

Customer perspective recognizes the fact that if business units are to achieve long-term superior financial performance, they must create and deliver products and services that are valued by customers.

3. **Internal business and production process perspective:** Core competence, critical technologies, business processes and key skills are the main goals in this perspective. The key measures of performance used are efficiency, cycle times, unit costs and defect rates. Good supplier relations and process improvement to reduce the time lag between receipt of order and delivery to the customer are important.

Continuing the earlier example (given in financial perspective), if maintaining gross revenue is a company's financial objective and the company determines that on-time delivery increases customer retention, then the internal business perspective requires decreasing production stoppages.

4. **Learning and innovation perspective:** The main goals here are continuous improvement and new product development. Productivity of entrepreneurship, new ideas and suggestions from employees, employee productivity, retention and satisfaction, and rate of improvement are the key measures of performance. Employee satisfaction recognises the significance of employee morale. Employee retention focuses on the development of intellectual capital. Employee productivity recognises the output per employee. Incentives and the environment should be created to promote all these.

A balanced scorecard should not be considered a panacea. Its implementation is best with several pitfalls. It needs to be widened to take care of social responsibility and environmental concerns.

Balanced Scorecard in Indian Industry

The BSC provides the guidelines for strategy development. Several firms in India are using BSC e.g., Godrej, RPG, Bharti, Dr Reddy's, the Tatas, Goodlass Nerolac paints, Nestle, SAIL, Dabur India, Colgate, Palmolive, Sesa Goa.

BSC facilitates the following functions:

- I. Translating strategy and strategy objectives into actionable goals and initiatives

- II. Communicating strategy and strategic objectives throughout the organisation
- III. Setting achievable targets and initiating processes to achieve those targets
- IV. Reviewing performance and feedback to executives about the status of strategy implementation and business success

Integrated Ratio Analysis (Accounting Measures)

Analysis of accounting ratios or financial statement analysis is a popular technique for judging the financial performance of a business enterprise. Separate ratios are calculated to judge the profitability, liquidity, solvency, etc. of a business. Various ratios may be integrated for judging overall performance. Returns on Investment (ROI) is a technique of integrated ratio analysis.

Return on Investment

Return on Investment is a useful technique for controlling overall performance. It is also known as return on capital employed. The essence of this technique is that profit is taken not as an absolute figure but is considered in relation to the invested capital. It has been the key technique in the control system of the Du Pont Corporation of the USA. The rate of return is calculated by dividing net profits by the total investment. In order to avoid the distorting effect of fluctuations in operating assets and liabilities, gross assets are taken as an investment. Net profit is taken before taxes and interest.

$$\text{Return on Investment Formula} = \frac{\text{Net Profit}}{\text{Cost of Investment}} \times 100$$

Economic and Financial Measures

Economic Value Added (EVA)

Economic value added means any surplus generated from operating activities over and above the cost of capital. It is the excess profit of a firm after charging the cost of capital. It is the corporate surplus that may be shared by the employees, management and shareholders. EVA is based on the simple idea that an enterprise needs to earn more than the cost of capital.

$$\text{Economic Value Added} = (\text{Return on operating capital} - \text{Weighted Average Cost of Capital} * \text{Capital})$$

Several companies such as Coca-Cola, Whirlpool, Infosys, Hindustan Unilever, etc. have successfully adopted EVA. The main applications of EVA are as follows:

- a) **Business Planning:** EVA is a better indicator of efficiency than profit after tax (PAT). A company can improve shareholders' value by increasing its EVA and not PAT. Therefore, EVA serves as a better tool for strategic planning, capital allocation, mergers and acquisition.

- b) **Good for investors:** On this basis of EVA, investors can determine whether a firm is worth investing money. EVA is a running score showing how well managers are performing their task of creating wealth.
- c) **Valuation of goodwill and shares:** Valuation is an important issue in financial decision-making, particularly in mergers and acquisitions (M&A). EVA spread of a company in comparison with EVA spread of other companies in the same industry can be used as the basis for the valuation of goodwill and shares.
- d) **Employee Compensation:** EVA can be widely used as a base for executive compensation. EVA-linked employee compensation is the best way to set accountability towards shareholders and protect and improve shareholders' value.

How to improve EVA

Some of the steps which help to improve EVA are given below:

- I. Invest in projects that earn more than the cost of capital. A slow and steady approach in this direction will ensure growth
- II. Make better utilization of resources to improve productivity and profitability
- III. Eliminate less profitable business units that generate operating profits less than the cost of capital
- IV. Motivate management and employees by linking incentive pay with EVA.

Market Value Added (MVA)

Market Value Added measures the stock market's estimate of the net present value of a company's past and expected capital investment projects. It should be differentiated from Shareholder Value and EVA. Shareholder value is the present value of the anticipated future streams of cash flow from the business plus the value of a company if it is liquidated. EVA is a value added to the shareholders by generating operating profit in excess of the cost of capital employed in the business. It is residual income after charging the cost of capital provided by shareholders and lenders.

Several companies mention the EVA in their annual reports to show the extent to which they have been able to create shareholder value. Companies like ONGC, Hindustan Lever, VSNL, Bajaj Auto and Bharat Petroleum have scored high on EVA. But TISCO, L&T, Essar Steel, and Indo Rama performed poorly on EVA

MVA is the difference between the current market value of the company and the capital employed by it. Suppose the market value of a company (the sum of the market value of equity and debt) is Rs.1,00,000 and its economic book value of capital is Rs.80,000 then MVA will be Rs.20,000. MVA can be +ve and -ve.

Network Techniques

Network analysis is widely recognised as a management tool in both commerce and industry. Under network analysis, a project is broken down to small activities or operations which are managed in a logical sequence. After this, the order in which various operations should be performed is decided. A network diagram may be drawn to present the relationship between all the operations involved. The diagram will reveal the gaps in the flow plan. The network thus drawn shows the interdependence of various activities of a project and also points out the activities which have to be completed before the others are initiated.



The object of network analysis is to help in planning, organising and controlling the operations to enable the management in accomplishing the project economically and efficiently. A number of networks technique have been developed by various research scholars. But PERT and CPM have gained popularity. Both PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method) recognise the inter-related nature of elements within large work projects. Any project whether it is a construction of a building or the manufacture of a hydrogen bomb is a complex network of inter-related activities.

In network techniques, an activity is defined as an operation required to accomplish a particular goal. The activity requires a specific span of time for completion. An event is a point of time when an activity is begun or completed. In a project, some activities are sequential while others are concurrent to each other. The former are those which are to be arranged in a particular order. In other words, they are interrelated.

Programme Evaluation and Review Technique (PERT)

PERT is an important technique in the field of project management. It involves basic network techniques which include planning, monitoring and controlling of projects. In addition to its use in schedule planning and control, the network concept in PERT provides the framework for treating a wide range of project management problems.

PERT/cost is an integrated management system designed to provide managers with the information they need in planning and controlling schedules and costs in development projects. Thus, PERT/cost system is directed towards the dynamic management of projects. It specifies techniques and procedures to assist project managers in:

- I. Planning schedules and costs
- II. Determining time and cost status
- III. Forecasting manpower skill requirements
- IV. Predicting schedule slippages and cost overruns
- V. Developing alternate time-cost plans
- VI. Allocating resources among tasks

PERT uses 'probability' and 'linear programming' for planning and controlling the activities. Probability helps in estimating the timings of various activities in the project, and linear programming is used to maximise the achievement of the project, objective. With the help of these tools, PERT can foretell the probability of achieving the project targets leading to the main objective of the project.

PERT is employed in the construction of ships, buildings and highways, the planning and launching of new products, the publication of books and the installation and debugging of computer systems. Frequently, PERT systems are used in conjunction with computers. A computer programme is employed that permits calculations to be made with reference to a flow chart or diagram.

Critical Path Method (CPM)

CPM is the most versatile planning and control technique used in business. Unlike PERT, it is applied in those where activity timings are relatively well-known. It is used for planning and controlling the most logical sequence of activities for accomplishing a project.

Under CPM, the project is analysed into different operations or activities and their relationships are determined and shown on the network diagram. The network or flow plan is then used for optimising the use of resources and time. CPM marks critical activities in a project and concentrates on them. It is based on the assumption that the expected time is actually the time taken to complete the project. Besides

ascertaining time schedule, CPM provides a standard method of communicating project plans, schedules and costs.

CPM requires greater planning than required otherwise. Thus, it increases the planning cost, but this increase in cost is justified by concentrating on critical paths and avoiding expenses through strict supervision and control of the whole project. Besides ascertaining time schedules, CPM provides a standard method of communicating project plans, schedules and costs.

The application of CPM leads to the following advantages:

It provides an analytical approach to the achievement of project objectives which are defined clearly.

It identifies the most critical elements and pays more attention to these activities

It helps in ascertaining the time schedules.

It makes use of better and detailed planning

It assists in avoiding wastage of time, energy and money on unimportant activities

It provides a standard method for communicating project plans, schedules and costs.

Coordination

Coordination is the process by which activities of different departments are synchronised to ensure unity of action. It is the task of reconciling differences in interest or approach in order to maximise contribution towards the accomplishment of common goals.

The basic function of coordination in an enterprise is the same as that of an orchestra conductor who directs the activities of the orchestra party in such a manner that it produces harmony in music. Likewise, the coordinator of an enterprise also directs the activities of the group in such a manner that it brings harmonious and unified actions to achieve a common purpose. Like the orchestra conductor, a manager also performs the function of securing and maintaining the unity of direction throughout the organisation.

According to Henry Fayol, “to coordinate is to harmonise all the activities of concern so as to facilitate its working and its success. It is to accord things and actions their right proportions and to adapt means to ends. In a well-coordinated enterprise, each department or division works in harmony with others and is fully informed of its role in the organisation. The working schedules of various departments are constantly attuned to circumstances.”

Coordination is not a separate function of management. It is the force that binds all other functions and is thus, called the **essence of management**.

- The process of coordinating the activities begins at the planning stage in which the top management plans for the entire organisation
- At the organising stage, the organisational structure is developed as per the plans
- The staffing function is performed thereafter as per the structure developed in the organization structure
- Directing is then required to ensure that these plans are executed accordingly
- The controlling function ensures that the deviations between actual and planned activities are taken care of

Conclusion: Like a thread in a garland, coordination is a part of all management functions. Coordination synchronises the efforts through all functions of management and ensures that the organisational objectives are achieved with a minimum of conflict.

Nature/Characteristics/Features of Coordination

1. **Coordination integrates group efforts by unifying diverse interests.** It gives a common focus to group efforts to ensure the performance is according to plans.
2. **Coordination ensures unity of action** by acting as a binding force between departments. It ensures that all action is required aimed at achieving the goals of the organisation.
3. **Coordination is a continuous process:** it begins at the planning stage and continues till controlling. Top management plans for the entire organisation. According to these plans, the organisational structure is developed and staffed. Directing is required for the execution of plans. Controlling corrects the deviation between the planned standards and accrual performance.

4. **Coordination is an all-pervasive function:** It is required at all levels of management and in all departments. It integrates the efforts of different departments and different levels. The purchase, production, finance and sales department efforts must be coordinated for achieving organisational objectives harmoniously.
5. **Coordination is the responsibility of all managers:**
 - Top-level managers need to coordinate with their subordinates to ensure that the overall policies of the organisation are duly carried out.
 - Middle-level management coordinates with both the top level and the first-line managers
 - Operational level management coordinates the activities of its workers to ensure that work proceeds according to plans.
1. **Coordination is a deliberate function:** A manager has to coordinate the efforts of different people in a conscious and deliberate manner. Cooperation in the absence of coordination may lead to wasted effort, and coordination without cooperation may lead to dissatisfaction among employees.

Need and Importance of Coordination

Coordination is important as it integrates the efforts of individuals, departments and specialists. The primary reason for coordination is that individuals and departments in an organisation are interdependent i.e., they depend on each other for information and resources to perform their respective activities. Therefore managers need to reconcile differences in approach, timing, effort or interest. At the same time, there is a need to harmonise individual goals and organisational goals.

The need for coordination arises because of the following reasons:

1. **Growth in size:** As an organisation grows in size, the number of people employed by it also increases. At times, it may become difficult to integrate their efforts and activities. For management, it is necessary to ensure that all individuals work towards the common goals of the organisation. But employees may have their individual goals also. Thus, for organisational efficiency, it is important to harmonise individual goals and organisational goals through coordination.
2. **Functional differentiation:** In an organisation, there may be separate departments of production, finance, marketing and human resource departments. All these departments have their own objectives, policies, strategies, etc. So, there may arise conflict between them.
 - For example, the marketing department's objective may be to increase sales by 10% by offering discounts. But, the finance department may not approve such discounts as it means a loss of revenue. Therefore, coordination is needed to ensure unity of action by acting as a binding force between departments and avoiding conflicts between them.
3. **Specialisation:** In modern organisations, there may be a high degree of specialisation. Specialisation arises out of the complexities of modern technology and the diversity of tasks to be performed. Therefore, organisations need to employ a number of specialists. Specialists usually think they only are qualified to evaluate, judge and decide. They do not take advice or suggestions from other members of the organisation. This often leads to conflict between them. Therefore, coordination is required to avoid conflict between the specialists and the other members of the organisation.

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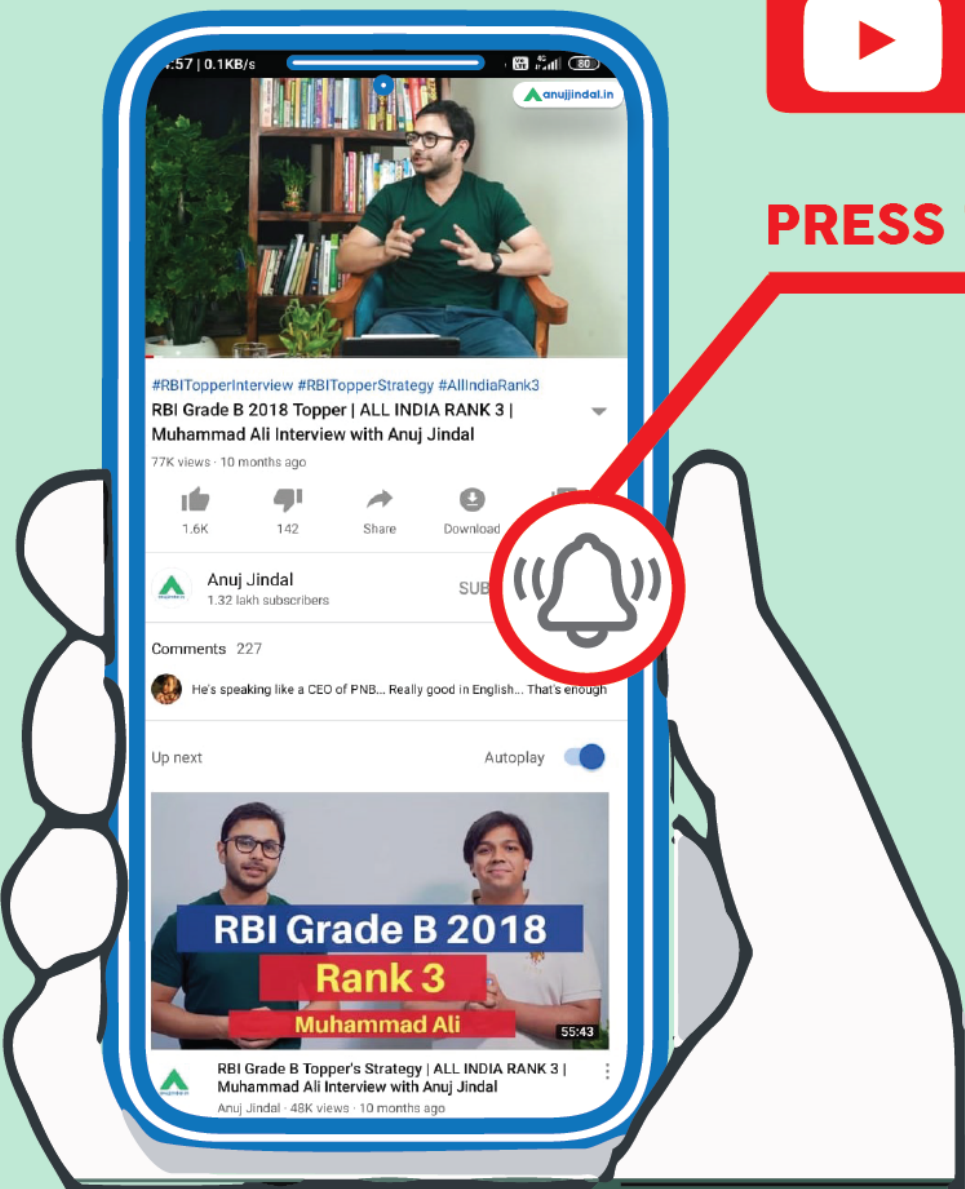




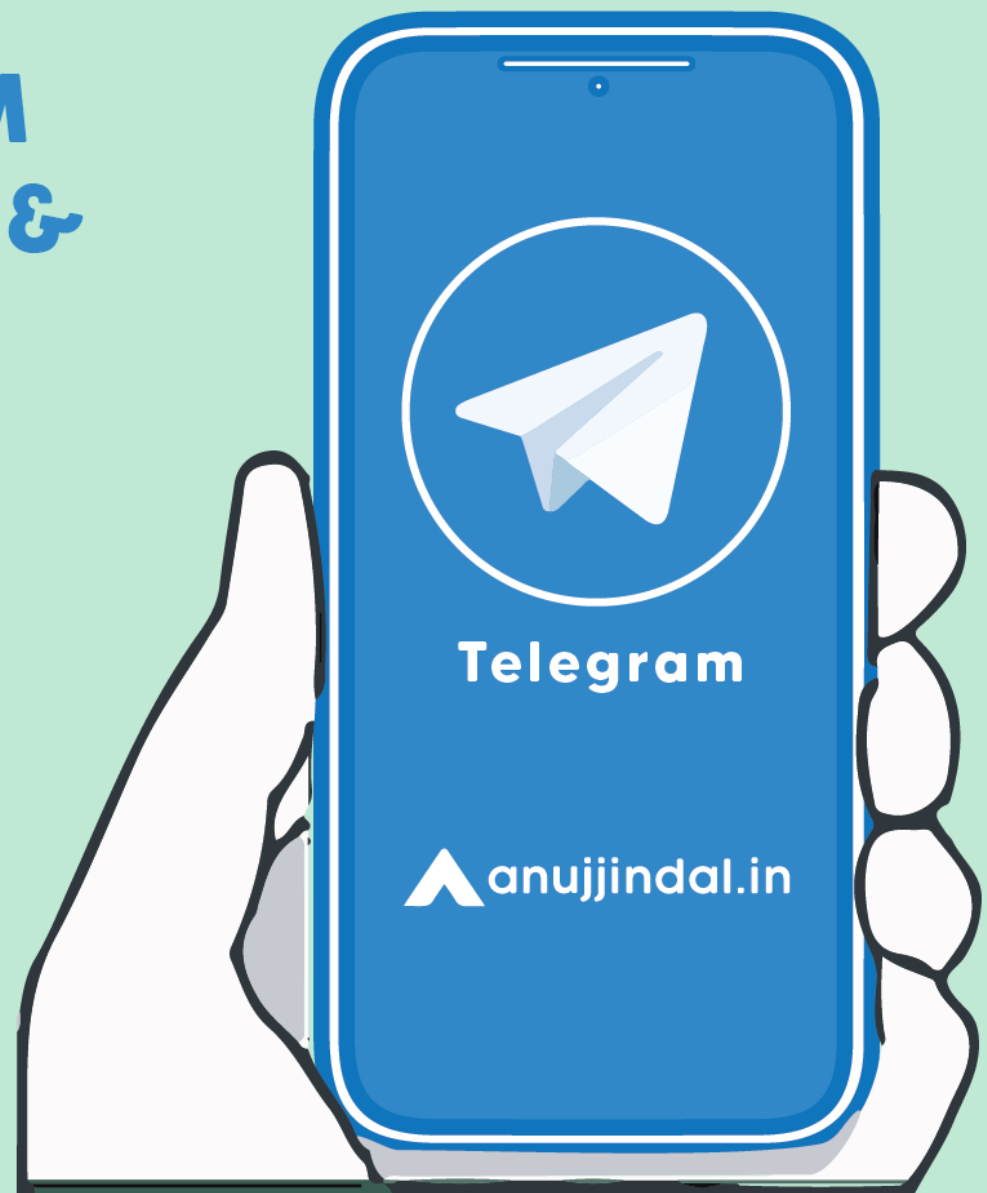
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